

# **TERMS OF REFERENCE (TOR) CONSULTANCY SERVICES FOR THE ESTABLISHMENT OF A DOMESTIC CREDIT RATING AGENCY (DCRA)**

## **1.0 BACKGROUND**

The Government of Ghana intends to establish a Domestic Credit Rating Agency (DCRA) to reduce information asymmetry between market participants (borrowers, lenders, and regulators), promote credit-culture, risk-based lending, and pricing of debt instruments. The DCRA will play an important role in the development of the Ghanaian financial sector by providing a systematic and comparable assessment of corporates and financial institutions to promote transparency and relative risk ranking. This is expected to lead to improved access to financing and pricing for borrowers, while also encouraging more prudent lending and investments by the investor community. Specifically, the DCRA would help promote market transparency and discipline and facilitate independent rating of regulated financial institutions and other corporate entities and issuers; facilitate investment decisions by helping investors achieve a balance in the risk return profile; and assist firms access capital.

To be successful, the DCRA will have to, earn market trust and ensure its long-term viability. In this regard, it must operate in an independent and transparent manner, conform to international best practice, including governance and regulatory standards, and provide high quality and impartial ratings. In addition, all regulators are expected to work with DCRA to ensure compliance.

## **2.0 OBJECTIVE OF THE ASSIGNMENT**

The Consulting Firm will advise the DCRA Steering Committee, to be set-up by the Ministry of Finance, on the establishment and operationalization of a DCRA, including the development of a draft business plan and implementation timelines, as well as Terms of Reference for the recruitment of a strategic/technical partner. The firm will leverage the findings and recommendations of the feasibility study completed in 2018 (with support from DFID and the World Bank) on the establishment of the DCRA in Ghana. The firm will take into consideration the licensing regime of DCRA's being developed by the Securities and Exchange Commission (SEC).

## **3.0 SCOPE OF ASSIGNMENT**

The Consulting Firm is expected to work under the supervision of the DCRA Steering Committee of the Ministry of Finance (Financial Sector Division) to:

- a. Develop a detailed business plan/model for the establishment and operationalization of a DCRA, focusing on the following:
  - i. Ownership structure, including proposed shareholding structure to ensure independence of the DCRA and incorporation processes and steps;
  - ii. Reviewing and advising on existing regulatory requirements necessary for the establishment of DCRA's;

- iii. Governance structure including composition and appointment of the board, management, rating committee etc., that ensures independence and transparency;
  - iv. Organizational structure, with recommendation of key functions and projections of the number of staff and types of expertise needed and job descriptions for key management staff;
  - v. Identification of products and services Pricing (fee) structure;
  - vi. Identification of internal policies and procedures that need to be developed;
  - vii. Optimal capital/funding levels and deployment over time, funding mix and sources, etc.;
  - viii. Financial projections (balance sheet, income statement, cash flows) and associated assumptions, including performance indicators (profitability ratios, efficiency indicators, business growth, etc.);
  - ix. Detailed implementation plan and schedule;
  - x. Establishing costs and sources of funding to cover such costs;
  - xi. Critical success factors for the establishment of the DCRA;
  - xii. Recommend approaches for the DCRA to effectively collaborate with regulators;
  - xiii. Approach to partnerships development (strategic/technical partners and their comparative advantage, collaboration between government and the private sector needed to ensure the long-term viability of the DCRA, etc.);
- b. Develop ToR for the recruitment of a strategic partner (e.g., reputable CRA), including:
- i. Identification of specific knowledge gaps/capacity building needs to be addressed by the strategic partner;
  - ii. Scope of the technical assistance to be provided by the strategic partner, qualification requirements, timing, etc.

#### **4.0 DELIVERABLES**

The Firm will deliver the following outputs in the course of the assignment:

- Draft business plan, including financial projections and implementation plan;
- ToR for the recruitment of a strategic/technical partner;
- Report on presentations, meeting summaries of stakeholder engagement workshops and comments on regulatory framework

#### **5.0 TIMEFRAME (OR) DURATION) OF ASSIGNMENT**

Assignment is to be completed within six (6) months after award of contract.

#### **6.0 REPORTS**

## 6.1 Reporting Requirements

The Consultant shall provide the following reports in addition to any documents and outputs specified in this TOR.

No.	Name of Report	Time of Submission
1.	Inception Report detailing out workplan for the assignment	Not Later than One month after contract signature
2.	Minutes and report on Stakeholder engagements	Not later than 2 months after signing of contract
3.	Draft Business Plan and draft TOR for Recruitment of Strategic/technical Partner	Not later than 3 months after contract signature
4.	Presentation of highlights of Business plan at Stakeholder Forum	Not Later than 4 months after contract signature
5.	Presentation of Final Business Plan and TOR for Recruitment of Strategic/technical Partner	Not Later than 6 months after contract signature

## 6.2 Submission & Approval of Reports

Four (4) copies and an electronic copy on Pen Drive of the reports referred to above must be submitted to the Financial Services Division (FSD) of the Ministry of Finance. The reports must be written in English. The Director FSD is responsible for approving the reports.

## 7.0 CLIENT INPUT

The Project Secretariat implementing the Financial Sector Development Project of the Ministry of Finance will provide the Consultant with copies of all available document that will aid in the consultant with their work.

## 8.0 Required Qualifications and expertise for team members of the Firm

The assignment will be delivered by a firm with the following qualifications:

- Strong track record in the provision of advice on the establishment/operation of credit rating agencies, particularly in similar country context;
- Demonstrated balance of international and local experience and expertise (e.g., at least one reputable local consultant as part of the team) in credit rating and/or capital markets, credit risk; and portfolio management;

The Team should include the following key members:

- The Team Leader shall possess at least 10 years of experience in credit rating, including at one recognized credit rating agency; advanced degree in finance, risk management, investment banking or related discipline; and track record in managing successful credit rating assignments, preferably in Africa or in emerging economies;
- Demonstrable experience in conducting feasibility studies, research, financial data governance, developing business plans and financial models.
- At least one expert should have at least 5 years of experience in finance, risk management, investment banking, or related fields; degrees in finance or related discipline; and expertise in key areas of the assignment such as credit rating, corporate governance, financial projections, etc.

## **8.0 REPORTING**

The assignment will be conducted in Ghana. The Consulting Firm will report to the DCRA Steering Committee to be set-up by the Ministry of Finance (Financial Sector Division).

## **9.0 CONFIDENTIALITY**

All materials produced or acquired under this project shall be held in strict confidence and shall not be disclosed to any party whatsoever without the express written consent of the MoF.