



REPUBLIC OF GHANA/ MINISTRY OF FINANCE

TERMS OF REFERENCE

(CONSULTING SERVICES – FIRM SELECTION)

Name of Project	Ghana Financial Sector Development Project
Loan No./Credit No./Grant No	6310 GH
Project Number:	P161787
Assignment Title	Consulting Services for The Operationalization of Domestic Credit Rating Agency in Ghana (DCRA)
Reference No	MOF-FSD-CS-10

1. BACKGROUND

The Ministry of Finance (MoF) has received financing from the World Bank towards the cost of the Ghana Financial Sector Development Project (GFSDP), with the objective to promote access to financial services by individuals. Component 1.3 of the GFSDP seeks to support the establishment of a domestic credit rating agency in Ghana.

The Ghanaian economy is at a stage where there is an expectation of high economic growth and demand for funds. These funds should be accessible from financial institutions or other investors who are willing to invest in the growth of bankable projects. However, there is currently no specialized domestic institution that provides information to such investors on the relative creditworthiness of issuers or on the instruments that are used to raise the funds.

The market for rating the creditworthiness of Ghanaian firms has been growing for over a decade. There has been a dramatic increase in the issuance of domestic bonds by Ghanaian corporates and quasi-governmental institutions. For example, the face value of new debt issued by corporate entities and quasi-governmental institutions increased from GHS70.6 billion in 2015 to GHS162.8 billion in 2022, corresponding to a Compounded Annual Growth Rate (CAGR) of 56.6 percent during this seven-year period. The stock of debt has also grown at a CAGR of about 82.5 percent, from GHS32.9 billion in 2015 to GHS188.5 billion in 2022. The recent revision of the pension investment guidelines allowing pension funds to invest up to 35 percent of their total assets in rated corporate bonds, increases the value proposition of credit rating in facilitating the channelling of long-term savings into long term financing.

Indeed, the in light of the recent developments in the domestic public debt market and the financial sector as a whole underscore the need for an independent rating of debt instruments to ensure that investors are well informed of their investment decisions.

To the quest to promote financial stability, the MoF has commenced the process of establishing 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 to 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 will be expected to encourage their licensees in the financial sector to work with the DCRA. Following a feasibility study completed by an independent advisory firm, the MoF has developed a business plan for the establishment of the DCRA and the DCRA has been incorporated under the Companies Act 2019 (Act 992) as “**Credit Rating Agency Ghana Limited (CRAG)**”. Three promoters/initial shareholders namely the Ghana Stock Exchange (50%), National Pensions Regulatory Authority (25%), and National Insurance Commission (25%) have taken equity stake in the CRAG. The Board will be independent and will be recruited through a competitive process. The CRAG is expected to have a staff strength of 15 for which the Chief Executive Officer has been recruited.

A provisional credit rating agency license has been obtained from the Securities and Exchange Commission (SEC), Ghana for the CRAG. The full license is expected when the capacity of the CRAG staff is built by a reputable credit rating agency among other operational requirements.

The MOF therefore seeks to engage a Technical Advisory Firm (a reputable credit rating agency) for a duration of one (1) year to assist with the operationalization of the CRAG.

2. OBJECTIVE OF THE ASSIGNMENT

The objective of the assignment is to support the implementation of the CRAG by developing internal policies, Standard Operating Procedures (SOPs), rating methodologies, and building capacity of staff in credit rating business.

The selected firm will leverage the existing business plan and work closely with the CEO and staff of the CRAG to successfully deliver the assignment. The consultant will also maintain interactions with key stakeholders including the MoF, SEC, Bank of Ghana (BoG), Ghana Stock Exchange (GSE), National Insurance Commission (NIC), National Pension Regulatory Authority (NPRA) and other key regulators and stakeholders. The firm will take into consideration, the licensing regime of credit rating agencies in Ghana.

3. SCOPE OF ASSIGNMENT

The Technical Advisory firm will be required to complete the following activities/tasks:

- a) Advise on the CRAG’s internal structure, governance, processes, and systems needed to ensure that it operates objective and transparently to earn the trust of the market.
- b) Develop internal policies and manuals including code of conduct and Ethics; Pricing Policy for Rating Services; New Product Development Policy; Corporate Governance Policy; Accounting & Financial Policy; Audit Policy; Risk and Compliance Policy; Admin Policy; IT Policy; HR Policy; and any other policies required for the operations of a credit rating agency.
- c) Assist in the implementation of the internal policies of the CRAG.
- d) Develop the Standard Operating Procedures for all the critical operations such as Rating related process (Rating process of the financial products; Rating process of the issuers; Initial rating process; and Surveillance rating process); Model processes (Model development and Model Validation); and new product development;

- e) Develop the following charters:
- Rating committee charter
 - Risk management and compliance committee charter
 - Nomination and compensations /remuneration committee charter
 - Finance and Audit committee charter
 - Executive Committee charter
 - Review existing documents of the CRAG and propose any improvement.
- f) Develop and operationalise the rating methodology/ criteria by considering the limitations of historical data availability, quality of data shared by the client and other constraints for the following sectors including but not limited to:
- Financial Services: Banks; Non-Bank Financial Institutions; Insurance Companies; and Asset Management/Fund Management companies.
 - Agriculture companies: Cocoa production companies and Agro-processing companies.
 - Manufacturing: Fast Moving Consumer Goods (alcoholic & non-alcoholic beverages and Food, home & personal care); Metal Production (Aluminium; Iron and Steel; and Fabricated metal products); Chemicals (Polymers; Petrochemicals; and Inorganic chemicals); Pharmaceuticals; and Textiles.
 - Telecommunications
 - Oil, Gas and Mining
- g) Assist in the implementation of the internal policies of the CRAG.
- h) Assist the CRAG with initial ratings of issues and issuers during the period of the assignment.
- i) Define roles and responsibilities of key departments/ functions within the CRAG i.e. Rating division; Economic/ Research; Risk and Compliance; Rating Quality and Validation; New Rating Products and Value-Added services; Audit; Human Resources; Finance; Sales & Marketing; Corporate Affairs, among others.
- j) Develop human resources capabilities for the CRAG staff by developing and delivering training on:
- Development of rating criteria
 - Conducting rating exercise
 - Development of rating models
 - Validation of rating models
 - Other relevant capabilities deemed critical
- k) Develop requirements (job descriptions) for key job roles below and advise the CEO with the recruitment of the required experts:

Senior Management	Managerial roles and staff
Chief Executive Officer	Rating analyst
Chief Financial Officer	Economist
Chief Commercial Officer	Research and Rating methodology developer
Chief Operations Officer	IT support staff
Chief Human Resource Officer	Risk and compliance managers

Chief Technology Officer	Audit team members
Chief Risk And Compliance Officer	Human resources managers
Head of Centre of Excellence	Finance staff
Chief Audit Officer	Sales & Marketing staff

- l) Develop the roadmap for the next 3-5 years' recruitment in accordance with the business strategy adopted by the CRAG Board.
- m) Recommend system requirements including appropriate software and IT infrastructure for the operationalization of the CRAG.
- n) Develop the products portfolio by assessing the risks, opportunities, market size, capabilities, and other relevant factors, i.e., Rating Products (Issuers and Instrument Ratings) and Non-Rating Products.
- o) Determine the pricing mechanism and develop the model to price the products.
- p) Provide technical support in carrying out the rating operations during the period of the assignment in terms of:
 - Using self-developed rating methodology for local market
 - Collecting data of financial and non-financial parameters for conducting rating
 - Perform qualitative and quantitative analysis including but not limited to comparisons to Peers, Industry Standards & Propriety benchmark. Also involves assessment of operating plans, Risk appetite etc.
 - Determine the credit rating and finalise it by proposing it to the Rating Committee.
 - Public dissemination of Ratings on CRAG's website and Press Release.
 - Regular monitoring and updating Ratings by systematic analysis of company's creditworthiness, entity's specific development and trending industry conditions.
- q) Recommend database and publications that the CRAG can leverage to strengthen its foundation.
- r) Develop Key Performance Indicators (KPIs) to monitor the performance of the CRAG.
- s) Support in the development of Sales/ Marketing product brochures/presentation deck for business development.
- t) Support in the development of thought leadership content; conceptualise the and guide the development of a macroeconomic report on industry and country; and industry benchmarking reports.
- u) Support in the collaboration among regulatory bodies, industry bodies, banks, non-bank financial institutions (NBFIs) and collective investment schemes (CIS).

Provide two (2) resident advisors or commit to assign two experts who will spend significant time with the CRAG in Accra, Ghana.

4. REQUIRED QUALIFICATIONS AND EXPERTISE

The assignment will be delivered by a reputable credit rating agency with the following experience:

- Minimum of at least 15 years' hands-on experience in the rating of financial market institutions and corporates.

- Experience in developing operational policy and manuals, rating methodologies, and product portfolio for new credit rating business/company.
- Demonstrable experience in building capacity in credit rating business
- Proven knowledge of securities’ regulatory regime in Ghana or common law environment.

The Firm’s Resident Advisors must have the following qualifications:

Expert 1 and Team Lead:

- Must possess a minimum of bachelor’s degree in economics, finance, business administration or any other related field.
- Advanced degree in finance or international finance, economics, risk management, investment banking, insurance will be an added advantage.
- Minimum of a 10 years’ strong track record in the provision of advice on the establishment/operation of a credit rating agency;
- Experience in credit rating business with a demonstrable balance of international and local experience (countries with Ghana’s level of development).
- Experience in credit rating with a reputable credit rating firm.
- Evidence of experience in conducting business in the Financial Market and its operations.

Expert 2:

- Must possess a minimum of bachelor’s degree in economics, finance, business administration or any other related field.
- Advanced degree in finance or international finance, economics, risk management, investment banking, insurance will be an added advantage.
- Minimum of a 8 years’ strong track record in the provision of advice on the establishment/operation of a credit rating agency
- Conversant with CRA code of conduct
- Must possess knowledge of credit rating methodologies and procedure and models
- Must be conversant with laws governing credit rating activities, systems and internal control mechanisms
- Possess adequate knowledge of policies, procedures and controls for managing CRA
- Must be knowledgeable of the International Organization of Securities Commission (IOSCO) code of conduct fundamentals for CRA
- Demonstrate experience in rating structured financial products

Other Support Experts:

The firm may suggest other support experts that could form the team it deems necessary to deliver the assignment within the time frame of one year.

5. REPORTING REQUIREMENT

The assignment will be conducted in Ghana. The selected Technical Advisory firm will report to the CRAG. Copies of all reports per the deliverables schedule shall be shared with the Project Coordinator of the GFSDP.

The firm is expected to work under the supervision of the CRAG and liaise with key financial sector regulators.

The work of the Technical Advisory Firm will be guided by the Credit Rating Agency Guidelines issued by SEC.

6. DELIVERABLES AND PAYMENTS

S/N	Deliverables	Timing	Payment (%)
1.	Inception Report outlining the Technical Advisor's detailed understanding of the assignment, work plan, methodology to be applied, and detailing information needed from CRAG	Two (2) weeks after the commencement of the assignment.	20% after acceptance of the inception report
2	Recommend system requirements including appropriate software and IT infrastructure for the operationalization of the CRAG	Four (4) months after the acceptance of the inception report.	25% after acceptance of SOP Internal Policies and Roles & Responsibilities of departments and staff
3	Standard Operating Procedures (SOP) for all the critical operations of the CRAG		
4	Internal policies, manuals, and charters for the various Committees of the CRAG		
5	Reports on roles and responsibilities of key department, staff and recruitment roadmap for the CRAG		
6	Conduct 2 stakeholder engagements to assess the market dynamics to guide the development of rating methodologies and product portfolio for different market segments	Two (2) Weeks after the acceptance of system requirements, SOPs, internal policies and charters, and responsibilities for departments and staff	20% after acceptance of the policies and report
7	Draft framework for Rating methodology/criteria	Two (2) months after stakeholder workshops	
8	Draft framework for product portfolio (rating and non-rating products) and pricing mechanism		
9	Draft Sales/ Marketing product brochures/presentation deck for business development.		
10	Implementation Support including on the job training of staff Report and macroeconomic reports on industry and country, and industry benchmarking reports.	Two (2) weeks after the acceptance of draft rating methodology and product portfolio	20% after acceptance of the final rating methodology and product portfolio
11	Conduct stakeholder workshop to finalize rating methodologies /criteria and product portfolio	One and half (1.5) months after the acceptance implementation report	
12	Final rating methodologies /criteria for adoption by the CRAG Board		
13	Final framework for product portfolio (rating and non-rating products) and pricing mechanism		
14	Training manuals and plan to train staff of CRAG and sensitize key market stakeholders on credit rating business	Two (2) months after the stakeholders' workshop on the 5-year strategic plan	15% after acceptance of the final project report
15	Training of Staff (human resource capabilities) and Market sensitization report	Two (2) weeks after submission of the final reports	
16	End of assignment report	Two (2) weeks after submission of the Training Report	

7. DURATION AND LOCATION OF ASSIGNMENT

The duration of the assignment is One (1) year and it will be located at the CRAG office, Accra.

8. CLIENT INPUT

The CRAG will provide the Technical Advisory Firm with copies of all available documents that will aid in its work.

9. CONFIDENTIALITY

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