



## **TERMS OF REFERENCE FOR FOREIGN EXCHANGE RISK MANAGEMENT**

### **1. BACKGROUND**

The Eastern and Southern African Trade and Development Bank, commonly known as **Trade and Development Bank (TDB)**, is a specialized African multilateral financial institution serving most of Eastern and Southern Africa. The Bank's objective is to provide financing to support trade as well as long-term financing to viable projects in its 22-member states.

The mission of TDB is to be at the forefront of extending development capital and services to advance regional growth and integration through customer focused and innovative financing instruments. The Bank operates in a competitive market in which skills and expertise in critical areas are in high demand within the financial services and the development finance sectors within the member states.

The Bank has recently launched the TDB Academy to spearhead its training and human capital development. As part of its 2021 annual training programme, the Bank seeks to equip its employees on practical aspects of Foreign Exchange Risk Management.

### **2. OBJECTIVE**

The foreign exchange and money markets are worth trillions of dollars and are the pivot of the financial markets, providing funding, investment opportunities and the conduit between all other financial markets. In recent years, the importance of the money markets has become even greater as financial institutions focus more closely on the management and diversification of their sources of liquidity, apply greater discipline to their funding and examine the attractions of short-term investment and trading strategies.

Under its learning and development programme for 2021, TDB is looking for a Consultant or training firm with excellent capability to conduct Foreign Exchange Risk Management virtual training for its staff members. It is anticipated that the participants will be selected from a variety of functions in the Bank not exceeding 30 staff.

This course should focus on the current profile of the markets and offers up-to-date insights. The course should also emphasize the integrated nature of the market - in particular, how different instruments perform the same or similar functions and the opportunities this provides for arbitrage and hedging as well as analyse the liquidity characteristics and risks of different instruments and funding strategies. The course should review the contextual aspects of FX risk, different types of FX risks, how to manage them and the importance of formulating appropriate tools suitable to address specific needs of TDB and the region. In addition, it should also cover the accounting and reporting

implications of the different hedging and mitigation instruments including be practical exercises and real-life case studies to illustrate how FX risk management is applied in practice.

By the end of the course, the participating officers should have a better understanding of cash and foreign exchange markets including the risk involved and how to manage them as well as be able to design a hedging programme by understanding the FX exposure and money markets.

### **3. SCOPE OF WORK**

Using relevant examples and case studies, proposals to deliver the training are invited to cover areas including the below:

1. Introduction to cash money markets
2. Introduction to foreign exchange market
3. The nature of FX risk and how to assess foreign exchange risk based on underlying currency
4. Counterparty risk management relating to execution of derivatives transactions
5. Key Hedging Instruments /products available within TDB member states (what they mean in terms of cost and obligations to the borrower for both short term and long-term lending)
6. The Hedging dilemma: Hedging instruments available in jurisdictions where currency and foreign/offshore accounts regulations are either managed or restrictive for example Ethiopia, Zimbabwe, how to determine the appropriate level of hedging cover by level of risk and cost.
7. How to raise funding using foreign exchange derivatives mainly fx Swaps, currency swaps and fx Forwards.
8. Principles of Asset and Liability Management and impact of main risk factors on the asset and the liability side of the balance sheet i.e. Impact of Interest Rate Risk, Currency Risk, Liquidity Risk and Credit Risk.
9. Describe use of different types of interest rate and FX derivatives for implementing hedging techniques against ALM risks.
10. How to indicatively determine the cost of funds for lending in various local currencies using the products available in TCX.
11. Recent developments impacting FX risk and reflections on impact of covid-19 pandemic on FX.

### **4. EXPECTED DELIVERABLES**

The expected deliverables of this engagement include:

- a) A maximum of five half day training sessions delivered virtually over the course of not more than five weeks.
- b) A signed Close-Out Report in Microsoft Word or Adobe Acrobat PDF format, to be received by TDB within 7 (seven) working days of completing the training sessions, that, among other things: (i) provides the curriculum of the training that was provided; (ii) highlights any specific

needs / areas of concerns raised by staff during the training; and (iii) makes recommendations to the Management on measures that would enhance Foreign Exchange Risk Management.

**5. DURATION & LOCATION**

The training will be held virtually via MS Teams or Zoom given the current restrictions paused by the covid-19 pandemic. Participants maybe based in the various TDB offices located in Kenya, Mauritius, DR Congo, and Zimbabwe.

**6. PROPOSAL REQUIREMENTS**

Interested Consultants are requested to submit a proposal, clearly specifying:

- Technical proposal with clear Course outline, content and training methodology including case studies.
- Technical competencies such as Consultant/trainers(s) qualifications, demonstrable relevant experience in similar assignments, methodology, project plan and reference letters.
- Financial proposal (separate document) indicating the total all-inclusive US Dollar fixed cost for virtual course delivery and all related requirements, exclusive of VAT.

**7. SUBMISSION**

Interested Consultants are requested to submit their proposals in soft copy with the requisite information, directly to [tdbacademy@tdbgroup.org](mailto:tdbacademy@tdbgroup.org) not later than 17.00 hours by 23rd April 2021.