ShafDB
Shelter Afrique Development Bank
Financing Affordable Housing and Urban Infrastructure in Africa

TERMS OF REFERENCE

ENHANCEMENT OF IFRS 9 EXPECTED CREDIT LOSS (ECL) MODEL PARAMETERS

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ENHANCEMENT OF IFRS 9 EXPECTED CREDIT LOSS (ECL) MODEL PARAMETERS

1. PROJECT INFORMATION

Project Title	**Enhancement of IFRS 9 Expected Credit Loss (ECL) Model Parameters**
Project Sponsor	Christopher Chege Director, Credit & Operations
Project Manager	Fabrice Munyakazi-Juru Head of Credit
Project Duration	4 weeks from contract signature (indicative), plus implementation support until completion of the external audit of the first year-end in which the enhanced methodology is applied
Organization	SHELTER AFRIQUE DEVELOPMENT BANK (SHAFDB) Longonot Road Upper Hill Nairobi Telephone: +254-20-4978000 **Website: www.shelterafrique.org**
Country	KENYA
Contact persons	Fabrice Munyakazi Email: fmunyakazi@shelterafrique.org Rufus Mugo Email: rmugo@shelterafrique.org

2. BACKGROUND

Shelter Afrique Development Bank (SHAFDB) is a pan-African development finance institution headquartered in Nairobi, Kenya, owned by 44 African countries, the African Development Bank and the Africa Re-Insurance Corporation. It provides debt, quasi-equity and

equity financing to public and private institutions for housing and urban infrastructure projects in its member countries.

SHAFDB measures impairment of its loans and advances under IFRS 9 using an expected credit loss (ECL) model, and seeks an independent specialist to redevelop certain parameter areas of that model including: borrower-level probabilities of default (PDs), collateral recovery timing, collateral haircuts and recovery costs, the Forward-Looking Information (FLI) models as well as update of the PDs and default rates data for the low risk assets.

ECL estimates are sensitive to the PD and loss given default (LGD) parameters, which currently do not fully reflect differences in borrower credit quality, collateral type or jurisdiction. This is compounded by the portfolio's spread across 44 jurisdictions with differing enforcement frameworks, and by its small number of loans, which leaves PDs reliant on limited observations. Given planned portfolio growth and capital-market funding, SHAFDB intends to refine these parameters so that ECL estimates remain well-founded, proportionate and supportable at audit. An internal review identified the following areas of improvement:

Ref	Parameter	Current approach	Areas of improvement
PD 1	Probability of default	PDs assigned by product and arrears band; Stage 1 lines of credit receive broadly the same 12-month PD	Limited differentiation between borrowers of materially different credit quality
LGD 1	Collateral recovery period	Uniform 60- and 72-month realisation periods for Stage 1 and Stage 2; Stage 3 periods set case by case without standardised evidence	Discounting does not reflect expected timing by security type, jurisdiction or enforcement route; across 44 member countries a single uniform term to realisation is difficult to support
LGD 2	Collateral haircuts and recovery costs	Collateral and guarantees aggregated; uniform forced-sale and recovery-cost assumptions	Recovery values may be misstated where liquidity, enforceability, ranking and disposal costs differ
FLI	Forward-looking macroeconomic models	Macroeconomic data in the models runs only to 2024	Update the models with the latest data from reliable sources (e.g. Fitch, Economist Intelligence Unit)
Default rates	Default rates on the low-risk assets	The default rates data used to generate the PDs on low-risk assets is up to 2017.	Update the default rates of the low-risk assets with the most up to date data from reliable sources.

The external auditors' preliminary views on these enhancements will be shared with the selected consultant at inception and must be reflected in the methodology. Management retains responsibility for the ECL estimates; the auditors' final assessment is subject to review of the completed work.

3. OBJECTIVE

SHAFDB seeks an independent consulting firm to assess and, where appropriate, enhance the PD, LGD and FLI parameters of its IFRS 9 ECL model so that they are evidence-based, auditable and risk-sensitive. The consultant will:

a) Develop, where supported by the evidence, a borrower-level rating approach mapped to a master scale, producing point-in-time, forward-looking 12-month and lifetime PDs.

b) Refine collateral recovery periods to reflect collateral type, jurisdiction and enforcement route, with exposure-specific assessment for Stage 3 and discounting at the effective interest rate.

c) Refine collateral haircuts and recovery costs by collateral type and jurisdiction, measuring collateral cash flows consistently and without double counting.

d) Update the FLI models and documentation with current macroeconomic data and confirm that scenarios and weightings remain appropriate.

e) Quantify the ECL impact of the changes, individually and in aggregate, and support implementation and the external audit review.

f) Update the default rates with the most up to date data to generate PDs for the bank's low risk assets.

The resulting methodology must satisfy IFRS 9 paragraphs 5.5.17 (unbiased, probability-weighted estimates reflecting the time value of money and reasonable and supportable information) and B5.5.55 (cash flows from integral collateral and credit enhancements)

4. SCOPE OF THE WORK

The consultant will review SHAFDB's current IFRS 9 ECL model, its documentation and underlying data, the internal review findings and

the external auditors' preliminary feedback, and will enhance the model parameters where supported by the evidence. This covers:

- **Probability of default:** borrower-level internal ratings for the main borrower segments, mapped to a master scale with calibrated 12-month and lifetime PDs and linked to the staging (SICR) criteria;
- **Recovery timing:** recovery periods reflecting collateral type, jurisdiction and enforcement route, with an exposure-by-exposure assessment for Stage 3;
- **Haircuts and recovery costs:** collateral haircut and recovery-cost assumptions differentiated by collateral type and jurisdiction, supported by clear valuation standards and collateral-allocation rules;
- **Forward-looking information:** FLI models updated with current macroeconomic data and appropriate scenarios and weightings.
- **Default rates data:** Updated data to generate PDs for the bank's low risk assets.

Given the low-default nature of the portfolio, the consultant will calibrate and validate the parameters using internal experience complemented by relevant external benchmarks and will present the methodology to the external auditors and address their queries. The consultant will quantify the ECL impact of the proposed changes against the current methodology, individually and in aggregate. The assignment also includes:

- a consolidated methodology document;
- unlocked models and code, with a data dictionary;
- training for SHAFDB's Credit, Risk and Finance staff;
- support to management through the external auditors' review of the first year-end in which the enhanced methodology is applied.

5. DUTIES AND RESPONSIBILITIES

The Firm's responsibilities include, but are not limited to, the following:

a) **IFRS 9 compliance:** produce point-in-time, unbiased, probability-weighted, forward-looking estimates discounted at the effective interest rate, adjusting any Basel-derived inputs for elements not permitted under IFRS 9.

b) **Evidence and proportionality:** base parameters on internal data, supplemented by external benchmarks and documented expert judgement, using methods SHAFDB can maintain in-house.

c) **Consistency:** reconcile PD and LGD components to avoid double counting.

d) **Auditability:** make each parameter traceable to source data, calculation and approval, and deliver models in an open format with full code.

e) **Auditor engagement:** present the methodology to the external auditors and respond to their queries; management retains responsibility for the estimates.

f) **Independence and confidentiality:** confirm independence from SHAFDB's external auditor, disclose any conflicts of interest, and use SHAFDB data solely for this assignment, returning or destroying it on completion.

6. REPORTING ARRANGEMENTS

The Firm will report to the Project Manager. Indicative duration is 4 weeks from contract signature (bidders may propose an alternative plan with justification). Required deliverables:

Ref	Deliverable
D1	Inception report (gap analysis, data quality assessment, data request, confirmed external data sources and refined workplan)
D2	Draft methodologies: rating methodology and scorecard design, recovery-period matrix and legal opinions summary, segmented LGD parameter tables, and updated FLI models
D3	Interim report and auditor walkthrough of draft methodologies
D4	Final parameters: calibrated PD curves with FLI overlay, portfolio ratings and validation report, and Stage 3 exposure assessments with sensitivity analysis
D5	ECL impact quantification (current vs enhanced methodology)
D6	Consolidated methodology document, models, code and data dictionary
D7	Implementation support, parallel run, training and handover report

All documents shall be in English. Drafts are due 10 working days before each review, and SHAFDB will return consolidated comments within 10 working days.

7. REQUIREMENTS

Qualified firms which are interested in undertaking these services are invited to submit their proposals. The proposals must provide a general background of the firm including a description of ownership and structure encompassing its national and international operations. In addition, the firm must satisfy the following requirements:

a) have completed at least three IFRS 9 PD/LGD development or validation assignments for development financial institutions or banks in Sub-Saharan Africa in the last five years, including at least one low-default portfolio;

b) be independent of SHAFDB's external auditor and its network;

c) provide qualified legal and valuation coverage of SHAFDB's main jurisdictions;

d) field a team meeting the minimum profiles below. Key personnel named in the proposal may not be replaced without SHAFDB's written consent.

Role	Minimum profile
Engagement lead	15+ years in credit risk modelling; led IFRS 9 model builds at DFIs or African banks; experience presenting to external auditors and audit committees
PD / rating model specialist	8+ years building rating scorecards and PD calibration for FI and project finance portfolios; low-default calibration techniques
LGD and recovery specialist	8+ years in LGD modelling, workout data and collateral valuation; real estate and construction collateral
Legal advisers	Qualified counsel covering enforcement and insolvency in SHAFDB's main jurisdictions
Valuation adviser	Recognised valuation credentials (e.g. RICS) with African real estate experience
Data / model engineer	Model build in Python, R or Excel; data pipelines and implementation specifications

8. THE PROPOSAL

Proposals should be submitted in two sealed envelopes as follows:

a) **Technical Proposal** to be submitted in a separate envelope should contain:

Administrative and Technical information

- Name of applicant, full address, telephone numbers and e-mail address;
- Legal status, headquarters or domicile, and date of establishment or registration;
- Details of the organisation structure;
- Understanding of the assignment and of IFRS 9 issues specific to DFIs and low-default portfolios;
- Proposed methodology for each parameter area, including external data sources and the low-default calibration approach;
- Workplan, Gantt chart and staffing allocation by deliverable;
- CVs of key personnel and three relevant references with contact details;
- Approach to auditor engagement and knowledge transfer;
- Independence and conflict-of-interest declaration;
- Comments or suggestions on these terms of reference;
- Any other relevant information.

The technical proposal should not include financial proposals or financial information.

b) **Financial Proposal** (to be submitted in a separate sealed envelope)

The Financial Proposal must be a fixed fee expressed in **United States Dollars (US$)**, broken down by deliverable and phase, showing person-days by team member, with legal and valuation costs shown separately, and travel and reimbursable expenses capped.

9. SELECTION CRITERIA AND EVALUATION

The contract will be awarded to the bidder whose offer represents the best value to SHAFDB, taking account of the professional and technical capacity, the quality of the offer and the price. Technical proposals will be scored against the following criteria:

Criterion	Weight
Methodology and understanding of the assignment	35%
Relevant firm experience (DFI / African IFRS 9 modelling)	20%

Criterion	Weight
Qualifications of key personnel	25%
Workplan, implementation and knowledge transfer	10%
Legal and valuation coverage of SHAFDB jurisdictions	10%
Technical total	**100%**

Final selection will be based on 80% technical and 20% financial. SHAFDB however reserves the right to negotiate with the selected firm its remuneration in line with the budget. Bidders may be invited to present their proposal to the evaluation panel.

The minimum technical score (St) required to pass is 70 pts.

The formula for determining the financial scores (Sf) is the following:

Sf = 100 x Fm / F, in which Sf is the financial score, Fm is the lowest price and F the price of the proposal under consideration.

Final Score = 0.2 Sf + 0.8 St

10. DATES FOR RECEIPT OF APPLICATIONS.

Completed Technical and Financial proposals, respectively clearly marked and enclosed in separate sealed envelopes, should be addressed to:

Procurement and Disposal Committee
Shelter Afrique Development Bank
Shelter Afrique Centre – 5th Floor,
Longonot Road, Upper Hill, Nairobi
P.O. Box 41479-00100, GPO Nairobi, Kenya
Tel: +254-20-4978000

The proposals should be received at SHAFDB by **13th November 2026** time 16.30 hours (Nairobi).