



## Terms of Reference

# **STUDY ON HOW BASEL 3 AND THE LATEST CHANGES IN REGULATION ARE AFFECTING ACCESS TO HOUSING FINANCE IN AFRICA.**

Proposals due by 5pm, August 15 2017, by email to Olivier Vidal

For more information, contact Olivier Vidal

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## 1. About the Centre for Affordable Housing Finance in Africa

The Centre for Affordable Housing Finance in Africa (CAHF) has been operating as an independent think tank in South Africa since May 2014, pursuing its mission of making Africa's housing finance markets work. It grew out of the housing finance theme of the FinMark Trust, where its research and advocacy programme began in 2003. CAHF's work extends across the continent, and it is supported by and collaborates with a range of funders and partners.

CAHF brings information to the market place to enable stakeholders in the public and private sector to make policy and investment decisions in favour of improved access to affordable housing. Our emphasis is on the role that finance plays in realising this, and we champion market intelligence—data, market analytics and research—to stimulate investor interest and to support better policy. We are highly networked and engage with stakeholders at the local, national, regional, continental and global levels to support the realisation of investment towards affordable housing in Africa.

**Vision:** An enabled affordable housing finance system in countries throughout Africa, where governments, business and practitioners work together to provide a wide range of housing options accessible to all.

**Mission:** To make Africa's housing finance markets work, with special attention to access to housing finance for the poor, through the dissemination of research and market intelligence, the provision of strategic support, and ongoing engagement in both the public and the private sector; supporting increased investment, cross sector collaborations and a market-based approach.

**Goal:** To see an increase of investment in affordable housing and housing finance throughout Africa—more players and better products, with a specific focus on the poor.

All of CAHF's work is directed at shifting investor interest towards the much larger market of the emerging middle class in urban areas across Africa, and using this to champion both improved housing conditions and economic growth, while also addressing inequality with the asset potential that housing offers.

**CAHF is looking for a service provider to write a focus note on how Basel III and the latest changes in regulation are affecting access to housing finance across Africa. The paper should unpack the current regulatory environment and how it manifests at a national level in terms of access to housing finance, in selected countries in both Francophone and Anglophone Africa. The paper will be presented to the AUHFs Annual General Meeting in mid-October 2017, and used as a position paper and advocacy document for AUHF members in their respective countries.**

## 2. Project Background

On 12th September 2010, the Basel Committee on Banking Supervision agreed on detailed measures to strengthen the regulation, supervision and risk management of the banking sector, following the aftermath of the global financial crisis. This package of measures, known as Basel III, supplements the existing International Convergence of Capital Measurement Document (Basel II), which came into effect in 2008.

It is expected that Basel III will be implemented progressively across the world between 2013 and 2019. The implementation will require a series of directives and regulations to be introduced at both Community and national level.

One of the main outcomes of Basel III will be a significant rise in the banking industry's capital requirements (and therefore, potentially, borrowing costs). By way of example, some estimates put the additional capital required by the European banking industry to comply with Basel III at around Euros 700 billion, reducing return on equity by up to 30 per cent (McKinsey 2010).

Formulated by the Basel-based Bank of International Settlements (BIS), Basel III sets out to accomplish three major goals by 2019. First, it seeks to strengthen banks in order to reduce the risk of a 2008 repeat, and, in the event of a new banking crisis, reduce knock-on effects to other sectors and countries. Second, Basel III puts in place measures to improve risk management techniques within the financial industry. Lastly, the accords aim to strengthen the industry's governance, transparency, as well as disclosure rules and practices. One way in which BIS sought to accomplish these goals was by more narrowly defining what constitutes Tier-1 capital reserves, a bank's first line of defense against default. Other concrete measures include enhanced stress testing, a reassessment of the calculations of the fair value of an asset, strengthening corporate governance, and keeping a more watchful eye on how executives are compensated. The asset-linked measures clearly have an impact on housing lending.

While Basel III is viewed as a global accord, many countries have chosen not to abide by all of its prescriptions, or to only adopt the aspects of the rules that suit their particular needs or development level. The Basel III accords were primarily designed for large banks in advanced economies which are involved in a wide variety of complex activities with significant cross-border operations. The majority of the banking sectors in African economies – South Africa aside – are far more straightforward, with activities focused on the fundamentals of loans and deposits. Consequently, the application of rules, such as those focused on funding long-term assets with long-term capital, can be difficult, given that the majority of deposits in Africa's banks are short term. Some countries, such as South Africa and Tunisia, have committed to the accords in their entirety. Others, including Egypt, Kenya and Nigeria, are slowly integrating the aspects that banking supervisors have determined to be well suited for their jurisdictions:

- Egypt only declared in 2012 that it had successfully implemented Basel II. More recently, in December 2016 Tarek Amer, the governor of the Central Bank of Egypt (CBE), stated that on the heels of the float of the Egyptian pound in November 2016, Egypt was ready to move towards the implementation of Basel III, the Egyptian press reported. However, the CBE has yet to announce an official timeline, plan of action or level of implementation.
- After a successful implementation of Basel I, Nigeria has begun implementing Basel II and III concurrently. The Central Bank of Nigeria (CBN), however, has made it clear that while the two accords as a whole have merit, it views some aspects of the recommendations as out of step with the realities of the Nigerian economy. The CBN will therefore exercise discretion regarding which aspects of the accords will be implemented. One instance in which this policy of discretion has played out in practice involves the capitalisation of domestic systemically important banks (SIBs) as stipulated by Basel. Faced with the possibility of recession in mid-2016, the CBN delayed the implementation of new capital rules for SIBs in the hopes of boosting lending in the economy.
- Following a similar path of discretionary implementation of Basel III is Kenya. The Central Bank of Kenya (CBK) issued guidelines in 2012 that called for the concurrent implementation of some, but not all, of Basel II and III regulations based on a phased-in approach starting in January 2013.
- In fact, the African Development Bank (AfDB) urged its members in 2011 to "move towards Basel III, albeit cautiously" in recognition that full implementation or the prescribed implementation timeline may not be a perfect fit for every African country.

### *Impact*

Taking a look at the effect that the Basel accords have already had on the Kenyan financial system, a study undertaken by the Nairobi-based Jomo Kenyatta University of Agriculture and Technology published in 2015

found a link between the Basel liquidity requirements and interbank lending rates in Kenya. As liquidity ratios rose in line with Basel recommendations, interbank lending rates tended to fall. This is an important development in an emerging economy such as Kenya, because lower interbank lending rates are often associated with lower commercial lending rates throughout the economy.

In other countries, such as Côte d'Ivoire, the impact of new Basel regulations is likely to be even more pronounced. The frameworks for Basel II and Basel III were adopted by the Central Bank of West African States in the summer of 2016. However, banks were given an ambitious deadline, with the new framework due to be put into place starting in January 2018 and phased in over the following five years. The new regulations will, among other things, force lenders to increase their capital adequacy ratio to 11.5% of risk weighted assets, some 3.5 percentage points higher than current levels a move that is likely to result in consolidation among smaller private banks.

### *South Africa*

Among African countries implementing Basel III, South Africa has the most developed banking sector. As Africa's only G20 member, the country has set itself on a pathway to full adoption of Basel III by 2019 alongside its G20 peers. Having already fully implemented Basel II and 2.5, South Africa began implementation of Basel III on schedule in January 2013, and has released a transparent and well-documented path towards full application.

While some countries have opted to implement capital adequacy at levels below those prescribed by the accords, the South African Reserve Bank has taken the opposite approach, setting capital requirements for its banks in excess of the levels dictated by Basel.

There is some concern in the economy, however, that these requirements could lead to a significant increase in the cost of capital.

**CAHF would like to appoint a consultant to study how the Basel 3 requirements are affecting the African mortgage market, looking particularly at ECOWAS and South Africa.**

## 3. Project Scope

We are interested in better understanding how the African financial sector is reacting to the Basel 3 requirements and how it is affecting, or expected to affect, the capacity of African financial institutions (including NBFIs) to provide affordable housing finance products.

The focus note should not be longer than 20 pages and should provide the reader with a strong overview of the situation in Africa with a particular focus on ECOWAS countries and South Africa. The report should include an analysis of the challenges ahead and offer a way forward. We expect that the paper will be presented to the members of the African Union for Housing Finance at their AGM in October 2017, and be used by AUHF members to engage on these matters with their respective governments. For more information on AUHF members, see <http://www.auhf.co.za/members/>.

## 4. Methodology

This is expected to be a desktop study, including a review of published and trade documents. If needed the consultant may include interviews with key stakeholders. It is expected that the research methodology will be

outlined in the proposals submitted in response to this terms of reference, and that the final methodology will be determined in consultation with the appointed consultant.

## 5. Deliverables

Outputs from the project include

- An inception report, that covers:
  - Comprehensive but succinct literature review;
  - An overview of key issues that the case study should tackle;
  - Detailed work plan and proposed methodology,
- A draft and then final report, in accordance with the CAHF Style Sheet, which includes, among others:
  - An executive summary of the report;
- A powerpoint presentation, in accordance with the CAHF Style Sheet, which includes:
  - A succinct and accessible overview of the findings of the final report; and
  - Representation of key data in an accessible form.
  - List of stakeholders contacted during the process of the research, with contact details (if any)
  - Any additional data collected during the research process

The consultant will be asked to provide CAHF with a 2 pages article summarizing the main element of his/her work, which will be published on CAHF website, and will present the main findings to the African stakeholders community through an online webinar.

## 6. Project Milestones

The project should be completed within 7 weeks of contracting.

Key dates:

SCHEDULE OF MILESTONES	TIMEFRAME	ESTIMATED DATE
Kick-off meeting	4 days after appointment	22 august 2017
Inception report	One week after kick-off meeting	29 august 2017
Draft final report and presentation	Four weeks after inception report	26 september 2017
Final deliverables	Two weeks after draft feedback	10 October 2017

## 7. Project Budget

Proposals of up to **ZAR 160 000**, including any possible V.A.T. and disbursements, will be considered. For consultants operating from outside of South Africa, CAHF will assume the exchange rate risk from the date of contracting, as long as the assignment is carried out within the contract period.

## 8. Contents of Proposal

Proposals to undertake this project must include:

1. Response to the ToR, demonstrating familiarity with the subject matter, expansion on the proposed methodology and key issues for consideration in the work.
2. A detailed work plan, demonstrating the feasibility of the proposal.
3. Name and CV of any staff members responsible (i) for overseeing the work; (ii) for undertaking the work. A consortium of consultants is welcomed.
4. Fee proposal and costs estimate, indicating the basis of calculation of fees, including cost of travel if necessary.
5. Capacity building and black economic empowerment are key objectives of CAHF. In rendering the service the consultant must endeavour to achieve these goals. South African consultants must report on their BEE accreditation. Other capacity building efforts can also be proposed, such as the use of students to support the research process, or workshop methods to engage with a wider stakeholder sector in each country. The focus of such capacity building would be on the use of data to consider and understand the role of housing in national economies. The proposal must comment on the manner in which the consultant intends to give effect to the capacity empowerment objective.
6. Familiarity with the Centre for Affordable Housing Finance in Africa's work is important. See [www.housingfinanceafrica.org](http://www.housingfinanceafrica.org).

## 9. Proposal Evaluation

Proposals will be assessed according to:

- i. Relevant, demonstrated competence of firm in this area: 20 percent.
- ii. Demonstrated expertise of key individuals to be involved in this project: 20 percent.
- iii. Content and quality of proposal, including innovation in and feasibility of approach: 35 percent.
- iv. Affirmative action scorecard (if South African firm) or use of local service providers: 15 percent.
- v. Financial proposal: 10 percent.

## 10. Proposal Submission

**Deadline for submission are 15 August, 2017.** CAHF will appoint a consultant by August 22, 2017. After validation from CAHF of the consultant inception report, it is expected that the consultant will conduct the research study by 10 October<sup>†</sup>.

**The consultant may choose to write the study in English or in French.** The study will then be translated into the other language by a professional translator and published in both languages.

## 11. Guidance Note to Bidders

- Centre for Affordable Housing Finance in Africa reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.
- "Relevant, demonstrated competence of firm(s) in this area" - You should aim to demonstrate how the firm's collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference. You are welcome to describe the firm's general experience of financial

sector development issues (e.g. in other geographies or topical areas) but the evaluation will focus particularly on the application of that experience for the specific task at hand.

- “Demonstrated expertise of key individuals to be involved in this project” – The evaluation places considerable emphasis on the role and demonstrated expertise (i.e. track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.
- “Use of local professional capacity (consulting, analysis, coordination etc.)” – The Centre for Affordable Housing Finance in Africa wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.
- “Content, quality and originality of proposal” – Proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.
- “Affirmative action scorecard or use of local service providers”- Ownership and management by local stakeholders, and local staff development. Affirmative action scorecard will be used for South Africa firms.
- “Financial proposal” – Value for money, as well as absolute cost, will be taken into account.