Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 9-April-2018 | Report No: 125183

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Kenya	P165034		Kenya affordable housing finance
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
Africa	July 2018	December 2018	Finance & Markets
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
IPF	Government of Kenya	KMRC National Treasury	

Proposed Development Objective(s)

The development objective is to expand access to affordable housing finance and help build an enabling environment for private investment in affordable housing delivery.

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA) Scale Up Facility	250.00
Total Project Cost	**250.00**

Environmental Assessment Category	Concept Review Decision
FI-2-Financial Intermediary Assessment	18 January 2018

Have the oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

Yes

Other Decision (as needed)

B. Introduction and Context

Affordable housing is one of the four pillars of the second term of President Uhuru Kenyatta's administration. The Government of Kenya (GoK) is preparing a flagship strategy with an ambitious target to deliver 500,000 homes by 2022. The Housing Gap in Kenya (i.e. shortage of homes with access to basic services) is estimated at 2 million units. Every year there are 0.5 million new city dwellers. Additionally, 61 percent of urban households live in informal settlements (compared to 50 percent in Nigeria and 23 percent in South Africa).

On the supply side, Vision 2030 set a goal of producing 200,000 units a year for all income levels, yet government's investment delivered only 3000 units between 2009 and 2012.

On the demand side, outstanding bank mortgage loans in Kenya are fewer than 25,000 (corresponding to less than 0.3% of households in Kenya) and mortgage debt is only 3 percent of GDP (compared to, for instance, 32 percent in South Africa). Financial Cooperatives (SACCOS) are significant providers of housing finance but only have access to limited long-term funding resources with a heavy reliance on short term deposits.

Providing access to affordable housing finance supports jobs and economic transformation. On average 5 jobs are created per new housing unit based on international experience, and this ratio can be higher in economies where construction is more labor-intensive.

C. Proposed Development Objective(s)

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D. Concept Description

Today housing construction and finance are focused on the upper end of the housing market. The average mortgage loan is about KES 8 million (US$75,000), which makes it accessible to barely 2% of urban households. The GoK's strategy to expand affordable housing requires work on several fronts at the same time. The project would target the enabling environment, the institutional framework for serviced land, and the affordable home buyer financing. Involvement in construction work would be out of scope for this project. Private developers and the IFC confirmed to the team that qualified private construction firms would be attracted to the affordable housing space if financing is arranged for mortgages, serviced land is provided and property and mortgage registration facilitated.

The project would have the following components:

1) Component 1 (US$160 million): Long-term finance for affordable housing: This component will support the Establishment of the Kenya Mortgage Refinance Company (KMRC) with a mix of credit line and disbursement linked indicators tied to the establishment of KMRC and bond issuance. KMRC would issue bonds in the capital market and with the proceeds, would provide long-term loans to financial institutions. The objective would be to lengthen the maturities of the housing loans so that they become more affordable. To kick-start operations of KMRC, a credit line would be provided to refinance affordable housing loans i.e. below a certain amount (for instance up to KES 3 million which is the GoK's limit for affordable housing) and to certain income segments. The GoK is keen to establish KMRC with the participation of Development Finance Institutions and commercial banks and financial cooperatives (SACCOS).

2) Component 2 (US$40 million): Institutional capacity building for secured and serviced land[1] : This component proposes strengthening the institutional capacity and framework for land servicing. It is proposed that work be undertaken with 4 or 5 selected counties to strengthen their institutional capacity. The component would be disbursed via Disbursement Linked Indicators which could be subject to undertaking a number of studies to assess the available land and demand for affordable housing, and approving policies around Environmental &Social safeguards, servicing land strategy, auctioning the serviced land to the private sector.

3) Component 3 (US$ 40 million): Enabling environment for affordable housing finance: This component would seek to speed up and lower the cost of property and mortgage registration which is one of the main disincentive to mortgage finance (the cost of a property is higher if the buyer pays using a mortgage loan rather than cash).

[1] Servicing land is defined as providing the basic infrastructures such as water, sewage, and electricity. In some cases, it may involve connecting the plot to the main road with an access road. The cost of servicing land is estimated to account for about 30 to 40% of the cost of a property. Developers claim they cannot build affordable homes because of the cost of servicing the land in the first place.

The component would target a number of areas relating to the speed, cost and reliability of the title registration and transfer process. This component would be implemented through Disbursement Linked Indicators.

4) Component 4 (US$10 million): Monitoring and Evaluation (M&E). A key issue is how to ensure that the project and the GoK's affordable housing strategy are targeting the right households. This component would support the GoK in setting up a robust and systematic M&E framework and a trained evaluation team which would check the targeting and progress of the strategy, in particular the flows of private investments in affordable housing supply and the provision of affordable housing finance.

In addition to the project, the Bank's team is currently providing technical assistance through a trust fund on a sustainable and scalable framework to use Public Private Partnerships in counties for affordable housing supply. A pilot project in Naivasha is under development. The development of such projects would also be monitored in the M&E framework.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

A. Project location and salient physical characteristics relevant to the E&S risk management analysis (if known)

Affordable Housing Finance Project aims to support primarily demand side of the housing supply chain in Kenya by providing finance and capacity building to a range of financial institutions in order to increase availability of affordable housing and access to affordable housing finance. Main types of activities and their characteristics relevant to environmental and social (E&S) risk management analysis are as follows:

(1) **Component involving Financial Intermediation using commercial lending instruments/ financial products with individual mortgage borrowers as end borrowers (Mortgage Finance)**, i.e. Component 1, a Line of Credit (LoC) designed using a wholesale-retail Financial Intermediation model, with a wholesale FI (Kenya Mortgage Refinance Company, KMRC, that will be established before project appraisal) refinancing portfolios originated by Primary Mortgage Lenders (PMLs) that will apply for refinancing during project implementation.[2] This financing designed to help meet long-term financing needs of the market and is expected to be provided for mortgages for purchase of existing housing. The following important characteristic relevant to E&S risk analysis are taken into consideration for this component. If not managed properly, these are likely to have adverse impacts on credit and reputational risk for the PMLs and KMRC. This is primarily associated with (i) the quality of the collateral (properties to be refinanced) and (ii) the ability of the mortgage borrowers to repay loans.

(i) *Building safety.* Key risks involve health and safety issues linked to improper techniques during construction of mortgaged properties (e.g. use of hazardous materials, inadequate life and fire safety, weak structural integrity etc.). This can affect both quality of collateral and personal health and safety of end borrowers. Compliance with national building codes/ regulations can reasonably mitigate these risks for formal housing, which is the primary target borrower group for this LoC.

(ii) *Locations of the housing/ properties to be refinanced.* The locations are expected to be predominantly in urban areas that can be often densely populated. Locational characteristics may include sites in poorly managed areas with limited or no basic services such as water supply and sanitation, which could sometimes lead to health risks and impacts for end borrowers or impact property values. Risks should also be minimized by avoiding locations which are prone to disasters and/or cause adverse

[2] There are no PMLs during project preparation. Interested FI will make their application for funding during implementation. However, it is possible during project preparation to collaborate with potentially interested FIs around planned E&S risk management measures.

impact on natural environment and/or human health (e.g. locations near waste dump sites, high tension cables, canals etc.). Such locations have a potential to reduce value of the properties, thus leading to deterioration in the value of the collateral.

(iii) *Household activities hazardous to the environment and / or human health and safety.*[3] Household activities of end borrowers, such as those related to livelihood earning, may pose risk in terms of fire safety and/or health hazards that may put the collateral at risk. Examples include storage and use of hazardous fuels and chemicals.

(iv) *Resettlement/ displacement/ adverse impacts on vulnerable communities*. It is not envisioned that resettlement/ displacement issues will arise within the scope of this component of the project. Loans would only be provided to people with evidence of tenure (right to occupy their dwellings). However, originating and refinancing mortgages for properties built on land from which government agencies or developers may have removed communities, squatters or encroachers without proper compensation and/ or via illegal forced evictions could represent a reputational risk to the project and must be avoided.[4]

(2) **Technical assistance and capacity building components**, i.e. Components 2, 3, and 4 will involve institutional systems and capacity building that aim to ease supply-side constraints so that commercial mortgage lending is more enabled and Component 1 has a better chance of success. These components will target creating an institutional framework for secured and serviced land, building more efficient title registration and transfer process, and M&E framework. Even though these activities themselves will not have adverse E&S risk and impacts, they aim to contribute to creating foundations of housing market in Kenya. Embedding good practices on environmental and social risk management as per World Bank safeguard policies and national laws can help contribute to greater market sustainability. Therefore, during preparation, the team will explore with the client how to integrate E&S good practices with the TA activities, most particularly for component 2.

Rationale for classification as Category FI-1, FI-2, or FI-3:
OP/BP 4.03 *("Performance Standards for Private Sector Activities")* will be applicable to the project in lieu of the World Bank's safeguard policies. OP/BP4.03 is better suited for this project given that it will constitute private sector activities and is executed through PFIs, which are commercial private sector financial institutions.

The project is a Financial Intermediary (FI) project and is categorized as **FI-2** in accordance with OP/BP4.03. This categorization is based on the review of the prospective project activities and an expectation that, in accordance with BP4.03 paragraph 21, potential adverse environmental and social risks or impacts will be few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. This categorization is based on the nature of the prospective loan portfolios that would be presented to KMRC (that will be established before project appraisal) by Primary Mortgage Lenders (PMLs) for refinancing. Project Component 1 supports refinancing of eligible primary mortgage loans already originated by PMLs for purposes of acquisition of residential housing by individuals/ households. While mortgages themselves carry very limited E&S risks, E&S risks arise when refinancing is supported / guaranteed by mortgage portfolios where they were originated for properties constructed in an environmentally and socially unsustainable way that translates into either credit or reputational risks to PMLs and KMRC. It is also expected that the project's indirect positive contributions will be the overall growth of the market that would spearhead increased growth on the supply side (new construction).[5]

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3 This factor cannot normally be checked ex ante by the financial institutions so in practice PMLs would require end borrowers to represent that they would not undertake such activities.

4 This consideration would only apply to such resettlement / displacement that took place specifically in anticipation or preparation for the real estate/ housing construction activities for which mortgages were subsequently originated by PMLs.

5 It should be noted that the KMRC and PMLs have limited leverage over the supply side of the market and risk management approach is,

B. Borrower's Institutional Capacity for effective ESMS

Per the requirements of OP/BP 4.03 (Section C), for projects involving Financial Intermediaries, it is required to develop and operate an Environmental and Social Management System (ESMS) that is commensurate with the level of risk in exiting and/or prospective business activities (E&S risks described in section A). Specifically, ESMS will ensure that adequate measures are in place to identify, manage, and monitor associated E&S risks and impacts in line with Applicable Environmental and Social Requirements, as described in Section D of this PID/ISDS.

The following elements of the ESMS are essential for the effective implementation of E&S risk management measures: (1) developing written E&S policy and corresponding E&S procedures to fit the scope and nature of KMRC's refinancing activities, as well as to ensure WB Applicable E&S Requirements for the project are met; (2) capacity and clear responsibilities for E&S risk management to relevant KMRC staff, and (3) developing appropriate systems and capacity at the PMLs' level, as commensurate with scope of their engagement in the project.

During project preparation, the design and structure of the various components of the ESMS will be further defined in collaboration with the Borrower, interested financial institutions, and key stakeholders. This analysis will include E&S systems and capacity of KMRC at appraisal (once it's established during project preparation); respective responsibilities of KMRC and PMLs for achieving sound risk management outcomes; and capacity strengthening measures. Training and capacity building needs will be evaluated during appraisal. Based on the identified gaps, an action plan will be developed to address gaps/ weaknesses in the ESMS, including putting in place systematic measures to be taken to assess and establish and continually strengthen capacity of KMRC and PMLs during implementation (an E&S Capacity Building Plan will be prepared). These measures would be documented in the World Bank financing agreement with the Borrower and all subsequent legal agreements under the project, including any agreements between KMRC and PMLs (including Master Refinance Agreement).

<u>Mechanisms for consultation and disclosure, with an emphasis on potentially affected people</u>

The concept stage and appraisal stage PID/ISDSs will be prepared and disclosed by the Bank as the source of summary information on the Bank's findings regarding E&S issues and mitigation measures to be taken. The Bank will guide the Borrower in carrying out consultations with relevant stakeholder groups on draft E&S policy and corresponding E&S procedures for KMRC. Additionally, the Project Appraisal Document (PAD) will contain details on E&S risks for the project, measures to be put in place to identify and manage them, and plan and budget for capacity building.

In accordance with BP4.03, disclosure requirements for projects involving FIs are that the FI will disclose through the FI's website, if a website exists, and to permit, in writing, the Bank to disclose on the Bank's external website, the following elements of the FI's ESMS:

a) The FI's policy statement which describes specific objectives, metrics, and aspirations that the FI has set with regard to its environmental and social performance;
b) The FI's procedures for screening and assessing risks and impacts of subprojects or individual transactions; and
c) After Bank review, the summary of the environmental and social assessment that is required for any subproject considered high risk in accordance with the ESMS (not expected for this project as subprojects are mortgage loans to households).

KMRC and PMLs will be required to put in place and maintain a procedure for external communications / grievance mechanism to receive any concerns and feedback from the public regarding any aspects of their operations, for example, concerns related to their investment activities and/or a borrower/investee in portfolio.

therefore, focused on an exclusion-based model.

C. Environmental and Social Safeguards Specialists on the Team

1. Ekaterina Grigoryeva, Environmental Specialist, GEN03
2. Kimberly Vilar, Senior Social Development Specialist, GSU07

D. Performance Standards that might apply

Performance Standards	Applicable?	Explanation (Optional)
PS1 (Assessment and Management of Environmental and Social Risks and Impacts)	YES	Private sector activities involving Financial Intermediaries under Component 1 as follows: **<u>Applicable E&S requirements</u>** (to be included in all relevant legal agreements under the project) [6]: (i) Applicable national and local laws and regulations of Kenya.[7] (ii) List of Excluded Activities (to be details in appraisal- stage ISDS) **<u>Applicability of Performance Standard 1 to the ESMS for FIs</u>** ESMS will incorporate, as appropriate for the project circumstances, relevant principles and elements of an ESMS described in Performance Standard 1 (PS1) on Assessment and Management of Environmental and Social Risks and Impacts, (as required by OP/BP4.03), in terms of its structure and key components.
PS2 (Labor and Working Conditions)	YES	Private sector Financial Institutions will manage the working conditions of their own workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions, as required by para. 17(b) of BP 4.03.
PS3 (Resource Efficiency and Pollution Prevention)	NO	N/A
PS4 (Community Health, Safety, and Security)	NO	N/A
PS5 (Land Acquisition and Involuntary Resettlement)	NO	N/A
PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources)	NO	N/A
PS7 (Indigenous	NO	N/A

[6]

[7] In the case of housing finance, these may include national and local laws, municipal by-laws and other provision regulating housing development and certification by relevant authorities (e.g. building safety); waste management; LFS; access to basic services such as water and sanitation.

Peoples)		
PS8 (Cultural Heritage)	NO	N/A
Projects on International Waterways OP/BP 7.50	NO	This policy will not apply as no project activities involving international waterways are expected.
Projects in Disputed Areas OP/BP 7.60	NO	This policy will not apply as no project activities involving disputed territories are expected.

E. Preparation Plan

Target date for the Quality Enhancement Review (QER), at which time the ESRS would be disclosed and the PAD-stage PID/ISDS would be prepared

N/A

For Category C or Category FI projects that do not require an ESRS, the target date for preparing the PAD-stage PID/ISDS

September 2018

Time frame for launching and completing the studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

At appraisal, Bank will review ESMS at KMRC level and determine its adequacy based on the risk profile of corresponding project activities. In addition, the Bank will assess proposed arrangements for capacity building. KMRC will be expected to have the following elements of the ESMS:

(1) E&S Policy and Procedures, which will constitute core written elements of ESMS[8], will be prepared before appraisal
(2) KMRC will be required to get its Board approval and internalize E&S Policy and Procedures
(3) E&S capacity building plan (for KMRC and PMLs)
(4) External communications/ grievance mechanism
(5) Appropriate E&S risk policy and procedures for screening, management, monitoring and reporting will prepared and implemented by PMLs as a condition/ eligibility criteria of accessing financing from KMRC whenever this becomes relevant (as they apply for refinancing during project implementation). Assessment of adequacy of PMLs' E&S policies, procedures, and capacity to implement them will be a direct responsibility of KMRC, as detailed in its E&S Policy and Procedures.

Appraisal package will include a written memorandum of such assessment, in which steps to strengthen systems and capacity will be required and should follow the principle of continuous improvement to ensure that ESMS enables KMRC and PMLs to meet applicable E&S requirements. For this project, such assessment and recommended improvements will be included in the Appraisal PID/ ISDS and Project Appraisal Document (PAD) and approval of the ESMS by the Bank will become condition or disbursement for Component 1. Once the required steps are completed, the Bank would approve the strengthened ESMS.

[8] In the case of KMRC, E&S Policy and Procedures will cover all of its operations to ensure they are in line with Applicable E&S Requirements. This approach is due to the fact that in the case of KMRC, the purpose/ specified end use of World Bank financing under the project constitutes the entire purpose of KMRC's operations (i.e. housing finance). In the case of PMLs, their ESMS will cover activities related to Component 1 of the project only.

CONTACT POINT

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Borrower/Client/Recipient

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Implementing Agencies

Kenya Mortgage Refinance Company (to be created)
National Treasury

FOR MORE INFORMATION CONTACT

APPROVAL

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Approved By

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Country Director:	Diarietou Gaye	April 11, 2018