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

Concept Stage | Date Prepared/Updated: 02-Apr-2018 | Report No: PIDISDSC24276

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Rwanda	P165649		Rwanda Affordable Housing Finance Project (P165649)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	Jul 06, 2018	Sep 27, 2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance and Economic Planning	Development Bank of Rwanda	

Proposed Development Objective(s)

To expand access to affordable housing finance by improving availability of long-term wholesale finance

Financing (in USD Million)

SUMMARY

Total Project Cost	150.00
Total Financing	150.00
Financing Gap	0.00

DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Environmental Assessment Category	Concept Review Decision
F-Financial Intermediary Assessment	Track I-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

Rwanda has made impressive progress in economic, environmental, human, and social development after the 1994 genocide. In the late 1990s, the country was characterized by deep and widespread poverty, poor health indicators, and pervasive food insecurity. Remarkably, between 1995 and 2013 the economy had quadrupled, thanks to effective use of foreign aid and prudent macroeconomic policy. Government policy has also focused on building institutional capacity, good governance, and a business-friendly environment, resulting in an annual gross domestic product (GDP) growth rate of 8 percent between 2000 and 2013—a 170 percent increase in real GDP—making the country among the ten fastest-growing economies in the world. This growth has been pro-poor: poverty rates declined from 59 percent in 2000 to 45 percent in 2010.

According to the World Bank's Rwanda Poverty Assessment of April 2015, economic growth during the first half of the decade (2000 to 2010) was concentrated in the City of Kigali (CoK) and while it was pro-poor, it only benefited a fraction of the country's poor. During the second half of the decade, however, growth was mostly concentrated in rural areas and led to a 12-percentage point reduction in poverty and inequality. Despite this progress, half of the rural population continues to live below the poverty line, compared to 22 percent of the urban population. Poor households in Rwanda's urban areas were also 14 percentage points more likely to exit poverty than their rural equivalents and the rate of chronic poverty was three times lower for urban than rural households. Rwanda's high population density, scattered settlements, hilly topography, and low urbanization rates create a strong pressure on arable land and constrains the transition from subsistence to more productive large-scale commercial agriculture.

Hence, the government views urbanization as a key driver to achieve the 11.5 percent annual economic growth needed to reduce poverty and move the country to middle-income status by 2020 as articulated in the country's Vision 2020. To turn this vision into reality, the country's Economic Development and Poverty Reduction Strategy (EDPRS II) 2013–2018 sets, as one of its key objectives, the transformation of Rwanda's economic geography by facilitating urbanization and promoting secondary cities as poles of growth. This would require transitioning 50 percent of the population from farm to off-farm jobs. The realization of this ambitious urbanization objective requires the creation of an enabling urban environment which can support the needs of a growing urban population, including access to affordable housing.

Sectoral and Institutional Context

Rwanda's housing market is characterized by high rate of home ownership, mostly realized by self-construction of single family homes using low-cost construction methods and materials due to low household incomes. The 2016 FinScope survey revealed that 88% of Rwandan households are homeowners, while only 7% report to be renting (an important exception is Kigali, where about half of residents are renters). Self-construction is the prevalent method of acquiring homeownership: 83% of homeowners have built their homes, while 6% report to have purchased their homes.

Incremental construction / home improvement is very common: 45% of homeowners report to have enlarged or plan to enlarge their homes.

Rwandans finance the construction/acquisition of their homes primarily through savings, supplemented by a significant and growing share of bank/Microfinance Institution (MFI) credit for housing. 85% of homeowners report their own savings as the main source of financing to acquire/build their homes, while less than 5% report bank/MFI loans as primary source of financing. A larger share of credit is used for self-construction and home improvement as the most prevalent home acquisition/construction method in Rwanda. While less than 5% of Rwandan home owners report bank credit as primary financing source for their home acquisition, 18% of Rwandans which improved/enlarged their homes report to have used a loan from a financial institution. This finding was not only confirmed in interviews with bank and MFIs (which provide mostly incremental housing finance) but is also reflected in demand side surveys such as Findex (2014) and FinScope (2016). The relative size of home construction/improvement lending (as a percentage of housing finance) is one of the highest in the region (Findex)) and is more pronounced with lower-income/rural populations.

The steady growth of housing finance was bolstered by an enabling legal and regulatory environment which was further strengthened in recent years. By end 2016, housing finance accounted for 15% of total bank credit[1] and 30% of total MFI credit[2] - corresponding to 3.8% as a share of GDP (compared to 2.4% in 2010). This growth was enabled after a legal reform in 2011 which raised the maximum loan-to-value (LTV) ratio from 30% to 70%, a development which was further facilitated by an overall enabling environment which is very conducive to housing finance. Rwanda is almost unique in SSA in having addressed many of the blockages linked to obtaining clean title on land and being able to use this in secure lending transactions. It has limited the powers of customary rights over land and introduced a uniform tenure regime implemented through a Land Tenure Regularization program. The program established a formal system for regularizing land ownership and created 10.3 million land parcels. Titles were given out to every landholder, creating an opportunity to leverage this asset by obtaining a loan. A series of regulations have been put in place to govern urban planning and building, while the National Land Use and Development Master Plan (NLUMP) provides general directives for sustainable land use development and guiding principles for the socio-economic development, infrastructure, environment and land administration[3].

However, an array of constraints remains on both the supply and demand side of the housing market which contribute to the limited provision of affordable housing units to date. On the supply side, challenges arise mainly from access to land, infrastructure provision and cost of construction and development. The availability of land is still limited due to challenging terrains (e.g. more than half of the land in Kigali is on steep slope or in wetland and is difficult and costly to develop). Land is also expensive because of small plot sizes and fragmentation, and the cost of land acquisition tends to be high due to compensation of land mostly in private possession. Policies and urban development norms and standards currently militate against the development of efficient and high-density cities. Among the issues that need to be addressed is the strong public preference for single story dwellings with a surrounding wall and some open space. Construction costs are also high in Rwanda, as a function of the high cost of building materials, the lack of developer finance, and outdated

[1] 265mn USD in Dec 2016 – compared to 39mn USD in 2010
[2] 57mn USD in 2010 – compared to USD 28mn in 2010
[3] The National Housing Policy, adopted in March 2015, covers the role of various actors in delivering housing to a range of income groups and encourages the development of affordable housing for urban dwellers on low or irregular incomes. It included the upgrading of informal settlements as a new strategic objective, which envisages the provision of basic infrastructure and incentives for higher-density home construction/upgrading to form dense and well-serviced neighborhoods in six secondary cities (supported by a WB project). The National Urbanization Policy (NUP), adopted in December 2015, promotes densification as one of its four pillars to achieve resource-efficient and compact growth.

building technologies. Rwanda lacks large-scale local housing developers in the market, with local construction industry lacking skills in architecture, engineering and development to operate at scale. The combination of the aforementioned market constraints has contributed to the limited supply of new housing units in Rwanda in price ranges which were only affordable to the highest-income percentiles.

The limited supply and high cost of housing units for sale has effectively excluded the vast majority of Rwandans as potential homebuyers due to low income levels. The mismatch between available housing supply and demand leaves most Rwandans with no choice but to build their homes in phases and use substandard building materials which are not in line with regulations, contributing to the rise of informal settlements where a majority of households now live[4]. About half of households spend less than 500,000 RWF (580 USD) for informal house construction. About 86 % of households build their informal house in Kigali at a cost below 2.5 Mio RWF (2,900 USD). While these practices render home ownership more affordable, they come at a cost. Poor construction methods and materials increase the need for maintenance/repairs and associated costs, in addition to the lack of basic infrastructure (roads; electricity; sanitation; etc.) associated with informal settlements.

Many banks, MFIs and Savings and Credit Cooperative Organizations (SACCOs) consider housing finance as a promising business opportunity, but report the lack of long-term funds as key challenge to further growth in this segment. Rwanda's financial sector is dominated by commercial banks, which account for approximately two thirds of total financial sector assets, followed by the pension fund (17.1%), insurance (9.7%), and microfinance institutions/SACCOs (6.3%). The banking sector is quite concentrated and has a comparatively high degree of foreign ownership: The three largest of Rwanda's 17 commercial banks hold nearly half of total bank assets, the share of assets held by majority foreign-owned banks is equally high. But despite the high degree of foreign ownership, funding of banks is overwhelmingly domestic and comes mainly from deposits. This funding structure has limited banks' upstream vulnerability from exposure to cross-border financing shocks, but increased potential risks which may arise as a result of maturity mismatches between assets and liabilities. Unsurprisingly, banks report the lack of long-term financing as the most important constraint which limits their willingness and/or ability to provide/scale up housing credit. The challenges are even more pronounced for MFIs and SACCOs which – in addition to asset-liability mismatch related challenges – are confronted with regulatory restrictions and capacity constraints which limit their ability to provide/scale-up housing finance.

Rwanda's financial institutions engaged in housing finance have responded to the aforementioned asset-liability mismatch (ALM), funding and capacity constraints through various measures in an effort to mitigate associated risks. Many mortgage lenders have included flexible interest rate provisions in their mortgage contracts which allow them to pass on sudden increases in their cost of funds (primarily deposits) to their borrowers and offer shorter maturities on their housing loans, resulting in greater costs and risks for prospective homeowners. Most banks have also concentrated their mortgage lending towards public and private sector employees with regular incomes, which are considered less risky and costly to serve than their peers with comparable incomes, but irregular flows or informal sources, which account for more than 90% of Rwanda's workforce. The strong preference for salaried workers was not only confirmed in interviews with banks and – albeit to a lesser extent – MFIs and SACCOs, but is also reflected in demand side surveys which reveals that salaried employees are more likely to access a housing loan from a financial institution than their non-salaried peers with comparable incomes, even in the lowest income segments.

[4] According to Integrated Household Living Conditions Survey or Enquête Intégrale sur les Conditions de Vie des ménages (EICV4), 62.6 % of all urban households country-wide, and 79 % of all residents of Kigali City live in informal settlements

The Government of Rwanda (GoR) has undertaken a series of reforms and initiatives in recent years to stimulate the supply of affordable housing, but with limited results to date. The most prominent measure is the Prime Minister's instruction on support for affordable housing, adopted in 2015 and amended in 2017. The instruction includes: (i) the amended law relating to investment promotion and facilitation which incentivizes private investment in affordable housing; (ii) associated tax incentives; (iii) support to local production of construction materials; and (iv) a draft Presidential Order outlining the organization and processes for improved collaboration between national and local governments on one hand and the private sector on the other hand, in low income housing development. Despite the generous incentive scheme, progress has remained limited to date: Only two projects qualified for government support under the scheme, producing a total of 561 housing units[5]. The aforementioned challenges pertaining to the availability and cost of land, construction materials and efficiencies of scale have certainly contributed to this outcome. However, this outcome could also have been in part induced by weaknesses in the design and implementation arrangements of the incentives policies, which may which may not provide sufficient incentives to developers to produce low-cost housing units.

To target the provision of longer term finance as the biggest constraint to banks, MFIs and SACCOs to scale up the volume and outreach of housing finance in Rwanda, the WB proposes to provide a line of credit for eligible banks, MFIs and SACCOs in support of affordable housing finance to underserved segments. The first phase envisaged under this project proposes to channel the line of credit through the Development Bank of Rwanda (BRD) as the country's established development bank which includes the promotion of affordable housing amongst its core mandates. As the mortgage market gradually develops to a deeper, more mature market over time, the World Bank Group (WBG) could consider more advanced solutions in the future which leverage on capital market instruments to ensure the sustained provision of long term finance through market forces. Examples could range from the establishment of a mortgage refinancing facility to support the provision of long term funds through the issuance of bonds, and crowding in of investment by local and regional institutional investors, building on successful experiences which have worked in other markets. Other solutions could focus on increasing housing savings programs.

To incentivize banks and MFIs to lend down market, the WBG encourages the authorities and global partners to consider the development of de-risking instruments such as credit guarantees to incentivize banks, MFIs and SACCOs to lend against irregular and/or informal incomes. Such de-risking instruments could complement this project – which addresses the lack of long term funding – by incentivizing financial institutions to reach larger segments of the Rwandan population which can afford to borrow for housing, but remain excluded due to their irregular income streams. Such a mechanism would not only benefit banks wishing to tap into new markets, but support a wider range of lenders already in the market – in particular MFIs and SACCOs – helping them to scale-up their lending and expand their product offering.

Relationship to CPF

The proposed project is aligned with the Bank's Country Partnership Strategy 2014–2020, which identifies urban development as one of the strategic sectors to leverage the World Bank Group's assistance for promoting private-sector- driven and job-creating economic growth. The project also contributes to the Bank Group's twin goals of ending extreme poverty and promoting shared prosperity by improving access to affordable housing for Rwanda's rising urban population. Finally, the proposed project also complements the Bank's ongoing portfolio—for instance, the Urban Development Global Practice is working to enhance basic infrastructure and urban management in selected urban centers; the Agriculture Global Practice is supporting rural employment and agriculture transformation; and

[5] The two projects include the Batsinda II Project (561 housing units) and Abadahigwa ku Ntego Ltd Project (56 Units).

the Energy and Extractives Global Practice is supporting expansion of electricity access that would include the secondary cities.

C. Proposed Development Objective(s)

To expand access to affordable housing finance by improving availability of long-term wholesale finance

Key Results (From PCN)

Increase in the number of housing loans issued by banks, MFIs and SACCOs

D. Concept Description

This project aims to promote greater access to affordable housing financing through the provision of long term financing and capacity building. The main component provides eligible financial institutions with long term funding for affordable housing loans and mortgages. The financing component is complemented by a smaller technical assistance component which aims to strengthen the capacity of financial institutions, borrowers and key public and private sector stakeholders linked to the affordable housing value chain.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will provide financing for mortgages, self-construction loans and technical assistance. The exact project implementation areas are not yet known. The construction works will mainly be residential housing; and it is anticipated that the works will be in existing or planned zones for residential areas. It is also anticipated that the project will finance housing development in the urban and peri-urban areas of Kigali city and the secondary cities; in line with the respective zoning and building requirements.

B. Borrower's Institutional Capacity for Safeguard Policies

The main project implementing entity is the Rwanda Development Bank (BRD). The BRD has already prepared an Environmental and Social Safeguard Framework (ESMF) in 2017 as part another World Bank-supported project. The ESMF was consulted upon and disclosed in-country and at the World Bank and will be adapted for this project. The BRD has established a robust social and environmental policy prepared in 2013 and an E&S Management System which is compliant with Rwandan regulatory framework that pertains to the environment, land use, labor health and safety issues, vulnerable and marginalized groups and cultural artifacts. The BRD is well equipped with professionals who over the years have received training in environmental and social risk management and therefore should be up to the task under the proposed Project. The project will provide additional capacity building to the BRD and participating financial institutions as needed to meet project requirements.

C. Environmental and Social Safeguards Specialists on the Team

George Bob Nkulanga, Social Safeguards Specialist
Emmanuel Muligirwa, Environmental Safeguards Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This is an FI category project, with majority of the activities/subprojects falling under category C (Window 1 [mortgage refinancing]under Component 1 and Component 2 [TA]) while some may fall under category B for Window 2 (self-construction) under Component 1. The ESMF of another World Bank-supported project will be updated and adapted for the proposed project, followed by consultations and disclosure prior to project appraisal.
Natural Habitats OP/BP 4.04	No	The implementation of housing construction works under the project is not envisaged to affect natural habitats. However potentially negative environmental impacts will be assessed during ESMF preparation. The policy is not triggered.
Forests OP/BP 4.36	No	The project areas are most likely going to be habited locations or areas designated as residential or settlements in line with the respective land use plans, zoning criteria. It is not envisaged that the project will require clearing of forested areas or significant extraction of forest products to attain the development objectives. The project activities do not have potential for significant forest degradation or loss. The policy is not triggered.
Pest Management OP 4.09	No	The project is not envisaged to procure pesticides or pesticide equipment or lead to substantial increase in pesticide use. The policy is not triggered.
Physical Cultural Resources OP/BP 4.11	No	The construction works are expected to be undertaken in the confines of existing settlements or areas designated for housing construction. It is unlikely that Physical Cultural Resources(PCR) will be affected. However potential impacts to the PCR will be assessed during ESMF preparation. The ESMF will provide a management plan including “Chance Finds” procedures.
Indigenous Peoples OP/BP 4.10	No	It is not expected to have presence of indigenous people in the Project Area. The policy is not triggered.

Involuntary Resettlement OP/BP 4.12	No	The project is not likely to acquire land during implementation. However, the project beneficiaries are likely to acquire land or indirectly lead to the acquisition of land for housing construction. All land transactions will be required to be willing buyer - willing seller purchases amongst private parties.
Safety of Dams OP/BP 4.37	No	The project activities do not involve the construction or rehabilitation of any dams; and are not dependent on existing dams. The policy is not triggered.
Projects on International Waterways OP/BP 7.50	No	The project does not negatively affect the use and protection of international waterways. None of the investments or project financed activities will be located on international waterways thus this policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	None of the investments, project financed activities or operations will be located in disputed areas so this policy is not triggered.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Jun 29, 2018

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

The ESMF will be updated, consulted upon and disclosed prior to appraisal. No major safeguard-related studies required.

CONTACT POINT

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APPROVAL

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