

Document of  
**The World Bank**  
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Report No: PAD2353

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED REGIONAL SCALE-UP CREDIT IN THE AMOUNT OF EUR 116 MILLION  
(US\$130 MILLION EQUIVALENT)

TO THE WEST AFRICAN DEVELOPMENT BANK (BOAD)

AND A PROPOSED REGIONAL GRANT IN THE AMOUNT OF SDR 18.1 MILLION  
(US\$25 MILLION EQUIVALENT)

TO THE WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)

FOR A

WAEMU AFFORDABLE HOUSING FINANCE  
SEPTEMBER 7, 2017

Finance & Markets Global Practice  
Africa Region

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective July 31, 2017)

Currency Unit = FCFA

575 FCFA = US\$1

656 FCFA = EUR1

0.89 EUR= US\$ 1

## FISCAL YEAR

January 1 - December 31

Regional Vice President: Makhtar Diop

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Senior Global Practice Director: Ceyla Pazarbasioglu

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Task Team Leader: Caroline Cerruti

## ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i> (French Development Agency)
AfDB	African Development Bank
BOAD	<i>Banque Ouest-Africaine de Développement</i> (West African Development Bank)
BCEAO	<i>Banque Centrale des Etats de l’Afrique de l’Ouest</i> (Central Bank of West African States)
CAH	Centre for Affordable Housing Finance in Africa
CEMAC	<i>Communauté Economique et Monétaire de l’Afrique Centrale</i> (Central Africa Economic and Monetary Community)
CRRH	CRRH-UEMOA « Caisse Régionale de Refinancement Hypothécaire de l’UEMOA » (West African Regional Mortgage Refinancing Company)
DA	Designated Account
DLI/ DLR	Disbursement Linked Indicator/Disbursement Linked Result
E&S	Environmental and Social
EEP	Eligible Expenditure Program
ERR	Economic Rate of Return
ESMS	Environmental and Social Management System
FCFA	Franc de la Communauté Française d’Afrique (currency used by the WAEMU region)
FM	Financial Management
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFR	Interim Financial Report
KfW	Kreditanstalt für Wiederaufbau (German Development Institution)
LOC	Line of Credit
LTV	Loan-to-Value
MFI	Microfinance Institution (also called “SFD” in the WAEMU region)
NPL	Non-Performing Loan
NPV	Net Present Value
PDO	Project Development Objective
PIU	Project Implementation Unit
PPSD	Project Procurement Strategy for Development
OP/BP	Operational Policies/Bank Policies
SFD	<i>Système Financier Décentralisé</i> (Microfinance or financial cooperative institution)
SOE	Statement of Expenditures
SUF	Scale-Up Facility
TA	Technical Assistance
TOR	Terms of Reference
WAEMU	West African Economic and Monetary Union (UEMOA acronym in French)
WBG	World Bank Group

**BASIC INFORMATION**

Is this a regionally tagged project?	Country(ies)	Financing Instrument
Yes	Burkina Faso, Benin, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo	Investment Project Financing

☐ Situations of Urgent Need of Assistance or Capacity Constraints

☒ Financial Intermediaries

☐ Series of Projects

Approval Date	Closing Date	Environmental Assessment Category
28-Sep-2017	31-Dec-2022	F - Financial Intermediary Assessment

Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

**Proposed Development Objective(s)**

The development objective is to expand access to long-term housing finance in WAEMU, including for underserved households.

**Components**

Component Name	Cost (US\$, millions)
Participating Banks Mortgage Refinancing	80.00
Non-Bank Financial Institutions Mortgage Refinancing	50.00
Affordable Housing Policies Technical Assistance	15.00
Technical Assistance for Non-Bank Financial Institutions and CRRH	5.00
Design of Regional Guarantee Product for Housing Loans	5.00



## Organizations

Borrower : BOAD  
WAEMU  
Implementing Agency : CRRH  
WAEMU Commission

## PROJECT FINANCING DATA (US\$, Millions)

☐ Counterpart Funding    ☐ IBRD    ☒ IDA Credit    ☒ IDA Grant    ☐ Trust Funds    ☐ Parallel Financing

Total Project Cost:  
155.00

Total Financing:  
155.00  
Of Which Bank Financing (IBRD/IDA):  
155.00

Financing Gap:  
0.00

## Financing (in US\$, millions)

Financing Source	Amount
IDA-61410	130.00
IDA-D2360	25.00
<b>Total</b>	<b>155.00</b>

## Expected Disbursements (in US\$, millions)

Fiscal Year	2018	2019	2020	2021	2022	2023
Annual	45.00	50.00	25.00	30.00	5.00	0.00
Cumulative	45.00	95.00	120.00	150.00	155.00	155.00



## INSTITUTIONAL DATA

### Practice Area (Lead)

Finance & Markets

### Contributing Practice Areas

Social, Urban, Rural and Resilience Global Practice

### Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

### Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

No

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

No

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

No

## SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Substantial
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Substantial
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial



9. Other	● Moderate
10. Overall	● Substantial

## COMPLIANCE

### Policy

Does the project depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the project require any waivers of Bank policies?

☒ Yes ☐ No

Have these been approved by Bank management?

☒ Yes ☐ No

Is approval for any policy waiver sought from the Board?

☒ Yes ☐ No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

### Legal Covenants

Sections and Description

Grant and Credit Agreement - Steering Committee in form and with functions, composition and mandate, under



terms of reference satisfactory to the Association established no later than one month after the Effective Date.

Sections and Description

Grant Agreement - The Recipient shall no later than six (6) months after the Effective Date engage consultant(s) in accordance with the Procurement Regulations set forth in section III of Schedule 2 of this Agreement to implement Part 3(b) of the Project, with terms of reference satisfactory to the Association.

Sections and Description

Grant Agreements - The Recipient shall, no later than three (3) months after the Effective Date, designate and thereafter maintain an accountant, with experience and terms of reference satisfactory to the Association.

Sections and Description

Grant Agreement - The Recipient shall no later than three (3) months of Effective date, update its accounting system to accommodate its Respective Part of the Project's accounting requirements.

Sections and Description

Project Agreement under the Grant - the Project Implementing Entity no later than three (3) months after Effective Date, shall recruit and thereafter maintain a procurement specialist, with experience and terms of reference acceptable to the Association.

Sections and Description

Credit Agreement and Project Agreement under the Credit - To facilitate the implementation of Part 1(a), the CRRH to provide satisfactory evidence that it has issued a bond in the regional capital market, every 18 months, starting by the Effective date and during the implementation of the Project

Sections and Description

Grant agreement - The Recipient shall prepare its Annual Financial Statements in accordance with consistently applied accounting standards in form and manner satisfactory to the Association. Said Annual Financial Statements for each period shall: (a) be audited and published by the Recipient's Court of Accounts in accordance with consistently applied auditing standards in form and manner acceptable to the Association; (b) be furnished to the Association as soon as they are published and not later than 18 months after the end of each Fiscal Year.

Sections and Description

Project agreement under the Credit - Except as the Bank shall otherwise agree, CRRH shall not: (i) declare any dividend or make any other distribution with respect to its share capital, unless, after such dividend has been paid or other distribution has been made, the current assets of the Borrower would equal or exceed 12 times the current liabilities of the CRRH.

Sections and Description





Project Agreement under Grant and Credit - The Project Implementation Entity shall no later than six (6) months of Effective date, update its accounting system to accommodate its Respective Part of the Project's accounting requirements.

#### Sections and Description

Grant Agreement and Project Agreements - The Project Implementation Entity shall ensure that its internal audit department includes its Respective Part of the Project within its work plan, and provides a semi-annual internal audit report to the Recipient and the Association not later than 45 days after the end of the relevant semi-annual period.

#### Sections and Description

Credit Agreement - The Recipient shall, not later than three (3) months after the Effective Date, engage an Independent Verification Agent under terms of reference acceptable to the Association,

#### Conditions

Type	Description
Effectiveness	Grant and Credit - The Subsidiary Agreement has been duly executed on behalf of the Recipient and the Project Implementing Entity under terms and conditions satisfactory to the Association.
Effectiveness	Grant and Credit - The Cooperation Agreement has been duly executed between BOAD and the WAEMU Commission under terms and conditions satisfactory to the Association.
Effectiveness	Grant and Credit - The Recipient and the Project Implementation Entity shall have prepared and adopted the Project Implementation Manual, in form and substance satisfactory to the Association.
Effectiveness	Credit - CRRH has prepared an ESMS for Part 1 and Part 2 of the Project, satisfactory to the Association and has disclosed it in a manner acceptable the Association.
Effectiveness	Credit - All conditions for the effectiveness of the WAEMU Commission Financing Agreement have been met other than for the effectiveness of this Agreement.



Type Effectiveness	Description Grant - The Recipient shall have recruited a Project coordinator with experience and terms of reference satisfactory to the Association.
Type Effectiveness	Description Grant - All conditions for the effectiveness of the BOAD Financing Agreement have been met other than for the effectiveness of this Agreement.
Type Disbursement	Description Credit - no payments under Category (1), until and unless evidence satisfactory to the Association is furnished to the Association that: (i) CRRH has adopted a Pipeline for the first 12 months following the Effective Date; and; (iii) CRRH has entered into at least three Participating Agreements with Participating Banks.
Type Disbursement	Description Credit - no payments under Category (2) until and unless the Subordinated Loan Agreement has been executed, with terms and conditions acceptable to the Association.
Type Disbursement	Description Credit - no withdrawal shall be made: from the Credit Account until the Association has received payment in full of the Front End Fee; and for payments made prior to the date of this Agreement; except withdrawals under Category (2) up to an aggregate amount not to exceed 23,000,000 Euros may be made for payments made prior to this date but on or after October 15, 2016, for Eligible Expenditures, subject to the execution of the Subordinated Loan Agreement.
Type Disbursement	Description Credit - no payments under category (3), until and unless evidence satisfactory to the Association is furnished to the Association that: (i) CRRH has adopted a Pipeline for the first twelve (12) months following the Effective Date; and; (iii) CRRH has entered into at least three Participating Agreements with Non-Bank Financial Institutions.
Type Disbursement	Description Credit - for any DLI under Category (2), until and unless the Recipient, through CRRH, has furnished all required verification documents and information acceptable to the Association within sixty (60) days from the date said DLI was achieved, or such later date as may be established by the Association, showing that said DLI has been achieved.


**PROJECT TEAM**
**Bank Staff**

Name	Role	Specialization	Unit
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**Extended Team**

Name	Title	Organization	Location
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WESTERN AFRICA  
WAEMU AFFORDABLE HOUSING FINANCE

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## I. STRATEGIC CONTEXT

### A. Country Context

1. **The West African Economic and Monetary Union (WAEMU) region is one of four existing currency unions in the world.** The others are the Eurozone, the Eastern Caribbean Currency Union, and the Central Africa Economic and Monetary Community (CEMAC). Created in 1994, the WAEMU is composed of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo and Guinea-Bissau and is a stepping stone to further integration in West Africa. The WAEMU countries are also members of the Economic Community of West African States.
2. **The WAEMU has experienced solid growth over the last five years but challenges remain significant.** As a result of the peg of the CFA Franc (FCFA) to the euro, the WAEMU has benefitted from low inflation and interest rates. Since 2012, real gross domestic product (GDP) growth has been strong above 6 percent, and is projected to remain around this level in the medium term. Growth was driven by ongoing infrastructure investments, domestic demand, and favorable agricultural campaigns. Inflation was nil in 2016, reflecting the exchange rate anchor and low oil prices. However, public debt is on the rise and the reserve coverage has declined to 3.7 months of imports, reflecting a continued expansion of public infrastructure and lower-than-expected external financing.
3. **Poverty and income inequalities remain high coupled with a fragile security situation.** All the WAEMU nations except Senegal and Côte d'Ivoire (which are lower-middle-income countries) belong to the group of low-income economies. Per capita GDP varies from US\$360 in Niger to US\$1,400 in Côte d'Ivoire. Out of 110 million people, 43 million live below the extreme poverty line. In the coastal countries, growth occurs at the coast with pockets of deep poverty away from the sea. Côte d'Ivoire, Guinea-Bissau, Mali, and Togo are classified as fragile countries. Mali, Burkina Faso, Niger and Côte d'Ivoire have all experienced terrorist attacks in the past two years.
4. **800,000 new housing units are needed every year to address the housing shortage, which is increasing under strong population and urbanization growth.** The housing supply shortage is currently estimated at 3.5 million units. Every year, 800,000 new housing units would be needed to address the shortage, which is set to increase with population and urbanization growth rates of above 2.5 percent and 3.5 percent respectively, both amongst the highest in the world. About 100 million people will be born in the next 20 years in the region. In Abidjan alone, 40,000 new households are added to the city each year. Coping with such sustained rapid pace, increases the risk of land price appreciation and slum development.

### B. Sectoral and Institutional Context

5. **WAEMU banks only issue around 15,000 new mortgage loans per year, a tiny fraction of the estimated needs.** Credit to housing is equivalent to less than 2 percent of GDP in WAEMU versus 15 percent in Morocco and 30 percent in South Africa. In 2013, only 15,000 mortgages were issued by banks versus estimated annual housing needs of 800,000. The banking sector is dual with banks belonging to international and regional groups, generally meeting prudential requirements, and standalone banks, some of which state-owned, characterized by high non-performing loans (NPLs), and low capitalization. Some banks (Moroccan affiliates) are making housing finance their strategic priority. Microfinance and cooperatives institutions (MFIs) serve 17 million people, mostly in the informal



sector, but many of them are undercapitalized. Some have ventured into housing finance but with maximum maturities of only five years, and given the risk, they favor salaried workers.

6. **Several constraints face the housing finance sector.** Labor informality rates of 75 percent prevent access to a mortgage as banks take the domiciliation of salaries as their main form of security. Weaknesses in the land infrastructure are a major constraint: few people have access to a clean title, and mortgage enforcement is not common as the legal and judicial system tend to be protective of family housing. Prudential rules require financial institutions to match the maturity of credit with that of funding; since funding is mostly composed of short-term deposits, this limits the amount of long-term loans extended. The average bank mortgage maturity is about seven years, which constrains affordability despite low interest rates by Sub-Saharan standards (7-9 percent). Thus, the vast majority of households build incrementally over 10 years using a succession of micro-loans as they cannot afford a mortgage.
7. **In recent years, the region has taken steps to address the challenges.** To provide long-term funding to banks, a regional mortgage refinancing company (Caisse Regionale de Refinancement Hypothecaire - CRRH) owned by banks and regional institutions began operating in 2012. Credit infrastructure was strengthened with the establishment of a regional credit bureau in 2015, and a commercial court in Côte d'Ivoire in 2012, soon to be established in Benin and Senegal. Several countries have launched ambitious land reforms. Cote d'Ivoire has facilitated the access to a definite title and digitized the centralized land office. These changes are showing positive results in terms of title processing time. Senegal, Benin, and Togo have embarked on new land laws. Foreign developers have started to operate in WAEMU and governments have announced social housing programs aiming at improving access to ownership, with ambitious targets of more than 280,000 social housing units over a 4/5-year period. Social housing is defined by the price of the housing unit varying from FCFA 7.5 million in Niger to 20+ million in Togo. However, these initiatives need to be scaled up significantly to address the urbanization and population growth challenges.

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*Box 1: World Bank's work on Housing and Land in WAEMU countries*

*This regional project will support housing finance, and will be closely coordinated with country interventions on housing and land. In Cote d'Ivoire, the World Bank is working on improving access to land and housing for low income households in Abidjan; and planning new urbanization zones. In Benin, it is supporting the operationalization of the new Land Agency. In Mali, it has launched an analytical study on the greater Bamako area in which affordable housing will be a strong focus. Technical assistance under this project will build long-term capacity on land/housing data in partnership with a regional research center, and on land management and social housing programs, which will facilitate national interventions.*

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8. **The regional regulatory and institutional set-up for finance allows for scaling up housing finance markets.** Financial institutions are regulated and supervised by the regional Central Bank (BCEAO). The WAEMU Council of Ministers issues financial regulation. Ambitious reforms to strengthen bank supervision were adopted in 2016 (transition to Basel 2 and 3, consolidated supervision, tightening of single exposure limit). These reforms will strengthen liquidity requirements and incentivize banks to seek long-term funding. The CRRH operates regionally because it needs scale: it issues bonds in the regional securities markets and with the proceeds, extends long-term loans to banks secured against mortgages. The enforcement of mortgage collateral is governed by a regional uniform law. This context





allows a regional intervention to move housing finance markets down the income distribution.

### C. Higher Level Objectives to which the Project Contributes

9. **The project is consistent with the forthcoming Regional Integration Strategy for Sub-Saharan Africa.** Emerging priorities for the World Bank's work on Regional Integration emphasize urbanization as a rising challenge and the need to build regional markets in specific sectors; the project will strengthen regional housing finance markets by scaling up the regional mortgage refinancing agency. Ensuring access to adequate, safe, and affordable housing is also part of Sustainable Development Goal #11, which commits the global community to making cities inclusive, safe, resilient and sustainable.
10. **The innovations proposed in the project to expand access to housing finance implement some of the key aims of the Africa Housing Strategy presented to the Board in December 2015.** Expansion of access to housing finance will be coupled with interventions in the urban and private sectors. The innovative features include i) a regional approach using regional institutions with financing from both the IDA non-concessional Scale-Up Facility (SUF) and the regional grant window under the IDA regional program; ii) expanding access to housing finance for households in the informal sector; and iii) the crowding-in of private finance through CRRH.
11. **The project supports the cascade approach of the WBG and crowds-in private finance.** WAEMU banks' mortgage loans are mostly restricted to the wealthiest salaried households, and commercial housing finance is not affordable for households with modest or irregular incomes. The WAEMU countries have launched social housing programs and land reforms to expedite the issuance of definitive titles. But this is not enough to make housing finance affordable for income categories which are excluded. Thus, the project provides a temporary incentive to lenders to develop underwriting systems to serve this segment, and aims to significantly lengthen loan maturities to make housing finance more affordable. Under a base case scenario, one dollar of IDA is expected to leverage US\$5 of private finance.

## II. PROJECT DEVELOPMENT OBJECTIVES

### A. PDO

The development objective is to expand access to long-term housing finance in the WAEMU, including for underserved households.

### B. Project Beneficiaries

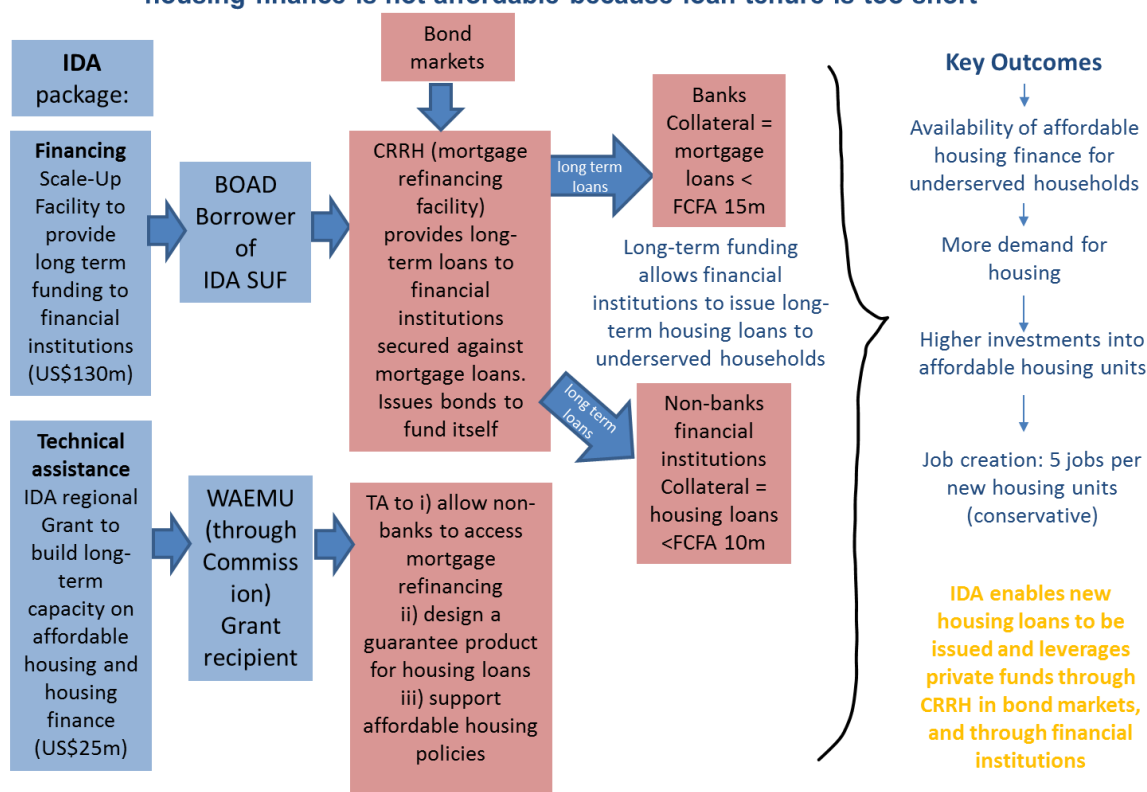
12. **The target beneficiaries will be underserved households in WAEMU.** For the purpose of the project, underserved households are defined as the ones who cannot access housing finance because their incomes are irregular or too low given the prevalent maturities. Today, with the cheapest available formal housing costing between FCFA 7-11 million and mortgage loans at an average interest rate of 8 percent for seven years, minimum annual incomes of between US\$6,500-10,000 are needed to access formal housing finance. The low mortgage production suggests that few households meet the formal income requirements. The project aims to expand access for households with incomes lower than this level and for those with irregular incomes, who are excluded from formal bank financing but served by non-bank financial institutions. A maximum loan size of FCFA 15 million for banks (US\$26,000) and FCFA 10 million for non-banks (US\$17,000) will be used to target these beneficiaries. This is in line with the average house prices for social housing programs in the WAEMU countries. The average size of



mortgage loans refinanced by CRRH has been around FCFA 23 million<sup>1</sup> so the project's target will incentivize banks to reach down the income distribution.

13. **The project is closely aligned to the IDA 18 Job and Economic transformation theme to reach the poor.** Stimulating demand will lead to higher investment into affordable housing, which has a strong multiplier effect across the economy given the number of linked sectors, whether it is production of raw material, construction sector, finished goods or financial services. IDA funding could enable an additional 50,000 mortgage loans over five years. Applying a conservative job multiplier of five would result in the creation of about 250,000 jobs. There are also many social benefits associated with improved housing and home-ownership, such as healthier living, and providing assets to escape poverty. Expanding long-term funding to sound MFIs to originate housing loans, and using a FCFA 10/15 million loan size that only affords a basic housing unit, will ensure that the project reaches its intended beneficiaries.

**Problem: high urbanization and population growth means high demand for housing. But housing finance is not affordable because loan tenure is too short**



### C. PDO-Level Results Indicators

14. **The PDO result indicators will be:** a) Number of new mortgage loans issued by banks in WAEMU per year (flow); and b) Number of housing loans issued by banks and non-bank financial institutions below FCFA 15 million refinanced by CRRH (cumulative). The first indicator will assess the catalytic impact of

<sup>1</sup> This figure excludes one outlier bank which refinanced a portfolio of small loans to employees of a state-owned company at CRRH's inception.



the project on the annual production of mortgages, and the second the impact on the target beneficiaries.

### III. PROJECT DESCRIPTION

15. **The project is focused on channeling much greater amounts of investment from the regional capital markets into affordable housing.** It will do this by supporting CRRH through i) direct financing to help it and the lenders it refinances reach out to underserved households; and ii) support to CRRH's balance sheet which will help it raise further bond financing. This will leverage IDA resources and ensure the long-term sustainability of the project and CRRH. Alongside the financing contribution, the project will provide technical assistance aimed at developing some of the enabling environment and financial infrastructure to support the production of cheaper housing and bring down the cost of housing finance.

#### A. Project Components

16. **The project will have a financing component (IDA Scale-Up Facility credit to the West African Development Bank -BOAD) and a technical assistance component (regional IDA grant to WAEMU).** BOAD will on-lend IDA proceeds to CRRH to provide long-term loans to banks and non-banks secured against housing loans to underserved households. The technical assistance will aim to build long-term capacity of WAEMU authorities and financial institutions on affordable housing and housing finance.
17. **The IDA SUF credit to BOAD requires a waiver from the Board.** IDA SUF eligibility criteria refer to IDA member countries with low or moderate risk of debt distress and do not envisage regional institutions. Thus, the Project is seeking a waiver of the eligibility criteria to provide a non-concessional IDA credit from the SUF to BOAD, without a guarantee, to carry out the financing portion of the project. BOAD is a lead investor into CRRH with 18 percent of the capital, and plays an important role in safeguarding CRRH's financial standing in light of its expansion to underserved households. The WAEMU countries have requested BOAD to take an active role in expanding affordable housing finance, to maximize opportunities provided by the uniform legal framework relating to mortgages across the region.
18. **Although IDA financing to BOAD would not benefit from the usual sovereign guarantee, the risk of non-payment is low.** BOAD has a strong financial position. BCEAO owns 47 percent of its capital and WAEMU countries another 47 percent. It is rated investment grade stable by Moody's and Fitch (Baa1/BBB), which is much higher than any individual WAEMU sovereign country (Senegal is B1). The rating is underpinned by its strong liquidity (access to the refinancing window of the BCEAO – contrary to other development banks), and by the strength of members' support. BOAD has not had any default since its creation in 1973. There is a robust mechanism to ensure that capital payments from shareholders remain timely. In case of a default, the shareholders would be liable.
19. **The financing to BOAD will comprise two components.**
  - a. **Component 1 will provide long-term loans to banks secured against small mortgage loans.** This component will expand the current business of CRRH which refinances mortgage loans issued by banks, but will target small loans. The eligible mortgage loans will have to meet the following criteria: loans below or equal to FCFA 15 million (US\$26,000) at origination; beneficiaries do not have an existing mortgage loan; and the property meets CRRH's existing requirements (clear title, insurance). With the IDA Credit, CRRH will extend the maturity of its



refinancing above 10 years, which will allow banks to lend at terms of 15 to 20 years. Half of this component will be used to strengthen the capital base of CRRH and will follow disbursement linked indicators, while the other half will be disbursed as a line of credit. The IDA funds for the line of credit will be on-lent below market to provide a limited and temporary incentive to banks to move to a riskier segment by investing in risk management and underwriting systems. Subsequent refinancing by CRRH will be done at market price. Rates will depend on IBRD rates at the time of disbursement.

- b. **Component 2 will extend funding for housing loans to non-bank financial institutions, serving the informal sector, and households with low incomes.** Currently microfinance and cooperative institutions are not eligible for CRRH's refinancing, while they are subject to more stringent long-term liquidity requirements than banks. The loan limit will be FCFA 10 million (US\$17,000) at origination, to provide adequate size between micro-credit and mortgages. This is the maximum loan size of a handful of cooperative institutions which have developed this business. This component will be disbursed as a credit line.

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*Box 2: How does a mortgage refinancing facility like CRRH promote economic transformation?*

A Mortgage Refinancing (or Liquidity) Facility is a wholesale financial institution providing long-term finance to mortgage lenders. It issues bonds in the capital markets, and with the proceeds, provides long-term loans to mortgage lenders. It bridges the maturity mismatch which lenders face when trying to do long-term lending using their short-term deposits.

The business model of a refinancing facility like CRRH is low-risk. The long-term loans to financial institutions are fully matched by the bond issues so there is no asset/liability management risk. Loans are over-collateralized by mortgage portfolios which must meet strict quality criteria (clear title, life insurance on the borrower, salary deduction at the source, cap on income portion used to make monthly payments), which reduces credit risk. Every time a bank benefits from refinancing, it has to place 5 percent of the refinancing in tier 2 capital, thereby keeping the total capital of CRRH in line with the increase in lending.

These facilities promote economic transformation as they:

- Improve the affordability of mortgages as banks can extend the maturity of loans to customers.
- Provide a safety net to the financial system, as banks know they have a source of liquidity when they need it, which incentivizes them to produce long-term loans.
- Help develop capital markets by regularly issuing bonds; and Increase competition by allowing smaller players to access capital markets through them.
- Support job creation, as the additional demand for housing translate into higher investments into housing units and jobs in the construction, building materials and services.

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**20. The technical assistance will be financed by a regional grant to the WAEMU (represented by its Commission) and will have three components.**

- a. **Component 3 will support affordable housing policies to increase supply.** It will establish a regional land and housing information system in a research center to support national housing policies; provide advisory services to national affordable housing programs (on financial engineering, project design and management) to accelerate the pace of housing production; and carry out feasibility studies to address constraints on access to secured and serviced land,



through pilot instruments (focused on urban regulations, land banks, or land titling procedures). This component will leverage the analytical work undertaken by the WAEMU Commission to harmonize practices in urban land management.

- b. **Component 4 will build the capacity of non-bank financial institutions and of CRRH to ensure take-up of the dedicated refinancing window of Component 2.** This window will require establishing eligibility criteria for non-bank financial institutions and for loans to access the refinancing; designing specific intervention rules to allow non-banks to access mortgage refinancing; and developing a risk management framework, procedures, and legal contracts for secured refinancing agreements with non-banks. It will also strengthen the capacity of banks and non-banks on environmental and social risk management.
- c. **Component 5 will finance the design of a regional credit guarantee product for housing loans, benefitting primarily households in the informal sector.** 75 percent of the population in WAEMU have informal incomes and are too risky for bank financing and long-term lending. This component would de-risk financial institutions when serving these households. It will finance a feasibility study, design, a business plan and policies and procedures to implement a suitable regional guarantee product, as well as training programs for financial institutions who could benefit from it. This product could be developed as a guarantee fund or as a reinsurance product (such as Home Guarantor Finance Africa in Southern and Eastern Africa). The WBG will leverage its extensive experience in housing guarantee schemes to review the design.

21. **The project represents a good example of IDA-IFC collaboration.** IDA SUF will build the ecosystem to enable housing finance for underserved households, and may open opportunities for IFC's investments (as in India – see Box 3). IDA's comparative advantages are the 30-year maturity, a temporary pricing advantage to incentivize lenders to expand to underserved households; the long-term capacity building on affordable housing policies and housing finance for informal households. The CRRH is a private regional entity owned at 45 percent by public institutional investors, including BOAD its largest single investor and the IFC, and 55 percent by WAEMU banks. IFC's equity investment completed this year and the appointment of a Board member strengthens the corporate governance of CRRH.

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*Box 3: IDA-IFC collaboration on Housing Finance*

IFC and IDA have collaborated on many mortgage refinancing facilities. Examples include:

- In India, IDA extended a Low-Income Housing Finance Project (US\$100 million) to the National Housing Bank in 2013, which was catalytic in securing policy reforms and opening new markets in the low and informal income segment. IFC complemented this by making a series of investments into low income housing finance companies as well as advisory services. The India project shows that it is possible to successfully open refinancing to households working in the informal sector.
  - In Pakistan, IFC advisory supported the enabling environment prior to the creation of a refinancing facility in 2016. An IDA loan under preparation seeks to provide a credit line and technical assistance to set up the facility, while IFC TA is helping to operationalize the institution.
  - In Kenya, IDA and IFC are currently working to set up a mortgage refinancing facility which will work primarily with financial cooperatives.
  - In Tanzania and Nigeria, an IDA loan helped set up the mortgage refinancing facilities in 2011 and 2013 and IFC has supported private lenders.
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## B. Project Cost and Financing

Project Components	Project cost	IDA SUF	IDA GRANT
Small mortgage loan Refinancing via banks	80	80	
Refinancing window for non-bank financial institutions	50	50	
Affordable housing policies technical assistance	15		15
Technical assistance for non-bank refinancing window	5		5
Design of regional guarantee product for housing loans	5		5
<b>Total Costs</b>	<b>155</b>		
<b>Total Financing Required US\$ million</b>	<b>155</b>	<b>130</b>	<b>25</b>

## C. Lessons Learned and Reflected in the Project Design

22. **Lessons learned are based on a recent IEG report and similar projects in Tanzania and Nigeria.**<sup>2</sup> Stable macro-conditions are a pre-requisite for developing housing finance; the refinancing facility in Tanzania was negatively affected by changes in the macroeconomy shortly after approval which prevented it from issuing bonds. A functioning albeit shallow bond market is a pre-condition for a refinancing facility. WAEMU presents the ideal conditions to develop housing finance with low inflation and interest rates, a regional bond market, and a refinancing facility which has issued 6 bonds since inception in 2012.
23. **If expanding affordable housing finance is a key objective, results should be adequately measured.** IEG found that effectiveness could not be measured in various projects (Brazil, West Bank Gaza) because they lacked definitions of intended targets. This project uses the size of the loan as the best proxy for affordable housing finance and targets the households with a loan up to FCFA 15 million (US\$26,000) from a bank or FCFA 10 million from a non-bank financial institution (US\$17,000). The IEG report notes that when there is no mortgage market, the low income segment should be introduced gradually. For this reason, the project aims to scale up the existing operations of the CRRH with banks to widen the mortgage market, while introducing a new business line to refinance housing loans issued by non-banks.
24. **Technical assistance can enhance sustainability when there is a strong link between investment and advisory services.** The lack of technical assistance negatively affected two IFC projects reviewed by IEG (Vietnam, the Philippines) while in Jordan, key reforms and WBG assistance contributed to the success of the mortgage refinancing facility. Components 4 and 5 are directly linked to the credit as they will help financial institutions to better manage their risk when lending long-term to households with irregular incomes.
25. **The WBG has only limited resources, which requires crowding-in private sector financing.** The credit resources will not be sufficient to resolve the housing gap in WAEMU and they need to be accompanied

<sup>2</sup> World Bank Group Support for Housing Finance, Independent Evaluation Group (IEG), 2016.





by reforms in the construction and land sector. Through CRRH, IDA will leverage private financing via bond issues backed by the strengthening of CRRH's capital base through the subordinated debt, and the catalytic impact of the mortgage refinancing facilities. Projects in Nigeria and Tanzania show that mortgage refinancing facilities incentivize housing supply reforms. In Nigeria, the refinancing facility entered into agreements with states which committed to improve the court system for the creditors' rights, and to lower transaction cost and time for titling; in Tanzania, it supported the acceleration of titling through subdivision.

## IV. IMPLEMENTATION

### A. Institutional and Implementation Arrangements

26. **The project meets the key criteria to be carried out at a regional level.** The table below explains why the project is structured as a regional project, and how the WAEMU, recipient of the technical assistance grant, meets the criteria for accessing regional IDA grants. The project will be closely coordinated with national IDA financial sector and urban operations in WAEMU countries to ensure that the benefits of this operation are well integrated in national strategies.

	Criteria for accessing Regional IDA Grants	Rationale
1	Recipient is a bona fide regional organization that has the legal status and fiduciary capacity to receive grant funding and the legal authority to carry out the activities financed	The WAEMU was created by a Treaty signed on January 10, 1994. <sup>3</sup> The Treaty creates the Commission, which is the executive arm of the WAEMU. The WAEMU benefitted from grants from the Global Environment Facility in 2011 for the West Africa Regional Biosafety Project (P096058), and a regional IDA grant in 2016 of US\$40.5 million for the Regional Program to Harmonize and Modernize Living Conditions Surveys (P153702).
2	Recipient does not meet eligibility criteria to take on an IDA credit	The WAEMU is funded by excise duties from the common external tariff and has limited resources.
3	The costs and benefits of the activity to be financed with an IDA grant are not easily allocated to national programs.	<p>The IDA grant would support the implementation of the financing component of the Project, structured as a regional project because:</p> <ul style="list-style-type: none"> <li>(i) Financial regulation and institutions are regional - The regional Central Bank (BCEAO) supervises banks and large microfinance institutions. Its regulations related to mortgage (liquidity and capital risk weights) apply regionally. Capital markets are regulated and supervised regionally and there is one regional stock exchange. Most banks belong to regional groups.</li> <li>(ii) The legal framework relating to mortgage enforcement is uniform across the region and governed by the OHADA Act on organizing securities.</li> <li>(iii) The project supports economies of scale: individual projects in smaller countries like Benin or Burkina would be very difficult as the capital market infrastructure and scale are not present. By scaling up the regional mortgage refinancing entity (CRRH), the project will benefit the underserved households in all eight countries.</li> </ul> <p>The IDA grant will finance activities that are difficult to allocate by country:</p> <ul style="list-style-type: none"> <li>- Establishment of a regional land and housing information system in a WAEMU research centre and good practices on social housing and land management.</li> <li>- Capacity building of non-bank financial institutions and CRRH to ensure take-up</li> </ul>

<sup>3</sup> [http://www.uemoa.int/fr/system/files/fichier\\_article/traitrevisueuemoa.pdf](http://www.uemoa.int/fr/system/files/fichier_article/traitrevisueuemoa.pdf)



		of the dedicated refinancing window. - Feasibility study and design of a regional guarantee product to address the risk of long-term lending to households with irregular incomes.
4	The activities to be financed with an IDA grant are related to regional infrastructure development, institutional cooperation for economic integration, and coordinated interventions to provide regional public goods	Component 3 supports institutional cooperation on affordable housing policies and is consistent with the WAEMU Council of Ministers' 2009 plan to promote urban development, and mandate given in 2016 to the WAEMU Commission to propose approaches to harmonize urban land management. Components 4 and 5 will help develop adequate risk management tools to support the expansion of refinancing to non-bank financial institutions which serve households in the informal sector. They would scale up the regional mortgage refinancing infrastructure towards institutions that are currently excluded from it.
5	Grant co-financing for the activity is not readily available from other development partners	Agence Francaise de Developpement (AFD) is supporting the collection of data for housing finance which will complement Component 3. African Development Bank (AfDB) is interested in collaborating on this agenda but available grants would be very small. Kreditanstalt für Wiederaufbau (KfW) is supporting CRRH with a line of credit, but not contributing technical assistance.
6	The regional entity is associated with an IDA-funded regional operation	The WAEMU will be associated with the regional IDA Scale Up operation on housing finance since the grant will be used to finance the technical assistance component of this project.

27. **The project will have two regional implementing agencies.** CRRH will implement the credit resources (US\$130 million) and grant Components 4 and 5 (US\$10 million) given its capacity to work with financial institutions, and the link between these components and the credit. The WAEMU Commission will implement Component 3. To strengthen coordination, the WAEMU Commission and BOAD will enter into a cooperation agreement and a Steering Committee, comprising BOAD, BCEAO, WAEMU Commission and CRRH, will oversee the implementation of the grant. Technical focal points will be appointed by each country to support the WAEMU Commission in the implementation of Component 3. The focal points will prepare the terms of reference for the advisory services on social housing and feasibility studies on land management tools, and will review the deliverables.

28. **Two subsidiary and two project agreements will complement the IDA agreements.** A subsidiary agreement between BOAD and CRRH will detail the implementation modalities of the IDA credit and another between CRRH and the WAEMU Commission will detail the implementation modalities for Components 4 and 5. IDA will sign a project agreement with CRRH under the credit, and a project agreement with CRRH under the grant.

29. **Flow of funds.** The IDA credit to BOAD will have two types of disbursement mechanisms. US\$40 million under Component 1 will follow disbursement linked indicators (DLIs), to be disbursed in two equal portions of US\$20 million, once CRRH has issued a bond(s) to refinance individual loans below FCFA 15 million, for a total amount of at least FCFA 12,400 million. The US\$40 million remaining under Component 1 and US\$50 million under Component 2 will be disbursed as a line of credit. Each will have at least two disbursements subject to presenting a pipeline of requests to refinance eligible loan portfolios. The disbursements under the regional IDA grant will be transaction-based.

DLI – component 1	Amount (US\$ million)
DLI 1: CRRH has issued a bond in the regional capital market and refinanced eligible mortgage loans for Participating Banks, for a total amount of at least FCFA 12,400,000 with the proceeds	20





of the bond.	
DLI 2: CRRH has issued an additional bond in the regional capital market and refinanced additional eligible mortgage loans for Participating Banks, for a total amount of at least an additional FCFA 12,400,000 with the proceeds of the additional bond.	20
<b>Total</b>	<b>40</b>

30. **The project is expected to include retroactive financing for the DLIs.** Retroactive payments can be made up to 12 months before the date of signing of the legal agreement as long as project implementation arrangements agreed with IDA, including fiduciary and environmental and social risk management procedures as applicable, have been used and inter alia (i) the activities financed by retroactive financing are related to the development objectives and are included in the Project description; and ii) the total amount of retroactive financing is 20 percent or less of the Credit amount.

## B. Results Monitoring and Evaluation

31. **CRRH will be in charge of monitoring the PDO indicators.** A BCEAO study provided the baseline number of mortgage production in 2013. CRRH already segments its portfolio of refinanced loans based on the original amount of the loan. The intermediate results indicators (outstanding bonds issued, number of non-banks accessing the dedicated refinancing window, implementation of regional guarantee product for housing loans) will be monitored by CRRH. The indicators on the execution of Component 3 will be provided by the WAEMU Commission. All indicators will be included in the financial reports.

## C. Sustainability

32. **The project includes mechanisms to enable the provision of long-term housing finance to underserved households beyond its completion.**
- The project will be implemented by an existing entity (CRRH) which will remain in operation after completion and has strong capital to sustain the business.
  - It leverages private finance by: a) using the leverage of mortgage refinancing facilities, which typically refinance up to 20 percent of the mortgage market but incentivize long-term lending by simply being available to lenders when liquidity conditions tighten and b) ensuring a constant stream of bond issues via the result-based financing, and a covenant that CRRH will issue bonds at least every 18 months throughout the project. This is designed to ensure that CRRH does not become dependent on concessional financing and continues issuing bonds for its regular business. Under a base scenario, one dollar of IDA will leverage US\$5 of private finance.
  - The technical assistance will build the long-term capacity of non-bank financial institutions to expand housing finance to underserved segments; and of WAEMU regional and country authorities to develop sound affordable housing policies.
  - The interest rate incentives under the lines of credit fulfil a temporary function: (i) to create an incentive for lenders to engage in the underserved segment; (ii) to act as a risk cushion against perceived higher levels of risk; and (iii) to encourage investment into underwriting systems, risk management, customer outreach and infrastructure. These are temporary, initial costs which these lines of credit would cover during a 'kick start' phase; subsequent refinancing would be done at market pricing as CRRH resumes funding all its activities through bond issuance.



#### D. Role of Partners

33. **KfW is supporting CRRH's move to underserved households.** It signed a EUR 40 million credit line with BOAD in 2016, to be on-lent to CRRH to refinance sub-loans below FCFA 25 million for a maximum maturity of 10 years. The line is expected to be fully disbursed in 2017/18, showing the strong demand from banks. IDA would go further down market with longer tenors (no caps on sub-loans tenor, and CRRH's refinancing expected to go up to 15 years) and a sub-loan limit at FCFA 15 million.
34. **AFD is supporting housing finance data.** It extended a EUR 1.5 million grant to the Centre for Affordable Housing Finance to support the production and collection of housing finance data, which would complement the housing and land information system planned under Component 3. AfDB does not have housing finance projects in West Africa but is interested in complementing IDA's project, as in Tanzania.

#### V. KEY RISKS

##### A. Overall Risk Rating and Explanation of Key Risks

35. **The overall risk rating is substantial.** While the project benefits from a favorable context, there are substantial political and demand risks. The favorable context is underpinned by: i) stable macroeconomic conditions allow the development of long-term housing finance; ii) the successful track record of CRRH while in previous World Bank projects such entity had to be created from scratch; iii) the 30-year term of IDA SUF financing will enable the extension of mortgage maturities, significantly improving affordability; and iv) all countries are implementing ambitious social housing programs which will ensure that there is supply with secured titling to respond to the demand implied by the project.
36. **Political and Governance Risks (substantial).** The political and security situation in some countries is fragile. Recent events in Cote d'Ivoire show that even fast growing countries in the region are not immune to political or social instability. While this risk cannot be easily mitigated, it can be hedged to some extent by an intervention at the regional level. In addition, while the outlook remains positive, change in policies such as delays in fiscal consolidation, slow progress in raising public investment efficiency and advancing private-sector friendly structural reforms, would make the overall environment more difficult for the project.
37. **Stakeholder risks (substantial).** A key success factor will be the demand from financial institutions. Financial institutions will have to invest in systems, customer outreach and risk management to move down market. Discussions with banks and non-bank financial institutions during preparation have confirmed the strong interest to expand to affordable housing finance if adequate pricing and maturities can be facilitated. The expected disbursement of the KfW credit line in 2017/18 underscores such appetite. The implementation of Basel 2 and 3 regulations by BCEAO from 2018 will tighten the liquidity ratios, providing further incentives to banks to access mortgage refinancing.
38. **Institutional Capacity for Implementation and Sustainability (substantial).** Long-term lending to households with irregular incomes presents substantial risks. These households are highly vulnerable to changes in the economic situation, and high loan-to-value (LTV) ratios create risks of over indebtedness (although legally the portion of income used to repay a loan is limited to 1/3). Component 5 will assess the feasibility of a suitable credit risk guarantee product to allow households in the informal sector, or



with high LTV, access housing finance. Component 4 will build the capacity of non-bank financial institutions to access the specific refinancing window within CRRH. This window will include strict eligibility criteria for institutions and loans, and will start refinancing the institutions which already have experience with housing finance. Through work with consumer protection agencies in the context of other engagements (Cote d'Ivoire, Senegal), the team will support the development of information on housing loans and monitoring of over indebtedness.

39. **The IDA grant to the WAEMU carries substantial fiduciary and execution risks.** The implementation of the US\$40 million IDA grant signed in April 2016 for the living condition surveys (P153702) has undergone delays, and the WAEMU Commission has not provided audited financial statements to the Association. However, the WAEMU Commission is managing grants from the EU Commission and Swiss Cooperation and has experience in World Bank procurement processes. To speed up execution, i) Components 4 and 5 will be implemented by CRRH and ii) a dated covenant in the grant will require the Commission to start the implementation of Component 3 by six months after effectiveness. The project's audit will include an annual interim review of the institutional internal controls applicable to the project.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial (if applicable) Analysis

40. **The provision of public financing is justified by the expansion of housing finance to underserved households.** IDA SUF provides a temporary incentive to lenders to develop underwriting systems to serve underserved households, and aims to significantly lengthen loan maturities to make housing finance more affordable.
41. **The project is expected to help create 250,000 new jobs by end of 2022.** This is based on a conservative job multiplier of five - this is often higher in labor intensive emerging markets. These jobs would be in a range of sectors servicing the new housing and engaged in the construction of further new units. In terms of calculating the project's benefits, the project is looking at the value added and so would account for notional tax revenue generated by this employment. Simple assumptions are used of 20 per cent tax rate, and an average wage of US\$5,000 per year per worker. In effect, the net benefit is US\$ 1,000 per new worker per year resulting from the project.
42. **The expansion of housing finance during the 5-year project window will help provide shelter to over 200,000 people.** Annex 4 shows some of those impacts, working on the basis of a 2022 baseline for the mortgage market of FCFA 1,820 billion, which would rise to FCFA 2,254 billion if the IDA project goes ahead. This represents an additional FCFA 430 billion of lending to 50,401 households, benefiting directly well over 200,000 people (assuming a conservative household size of four).
43. **The Economic Rate of Return (ERR) is a positive 53 per cent which clearly supports the value creation engendered by the project across the WAEMU economies.** Sensitivity analysis shows that the key ratio affecting the ERR is the leverage of the IDA resources in the mortgage market. The calculations use an assumption that an additional 22.5 per cent of mortgage lending will be done each year as a result of the project. Reducing leverage so that annual lending across the market increases by just 10 percent rather than 22.5 percent would yield an ERR of 37 percent. Other benefits could be included, for example the increasing value of homes created under the project, inputted rents, or using a higher

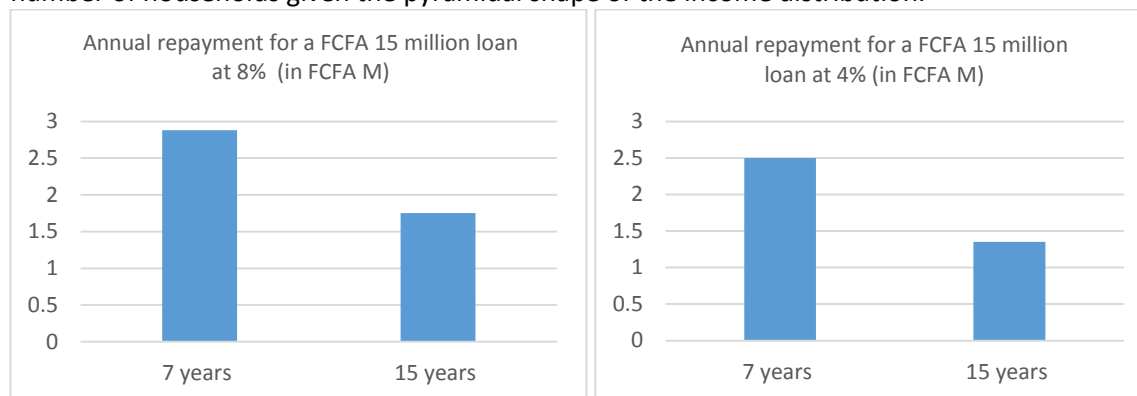


multiplier effect for jobs and economic stimulus across the economy (eight jobs per housing unit in India).

44. **The project will help strengthen CRRH's balance sheet to achieve rapid growth in lending, for the benefit of underserved households, while maintaining its financial strength and viability.** From end 2017 to 2022, the overall assets of CRRH will rise from FCFA 167 billion to FCFA 620 billion. The mono-line nature of CRRH's business model means that the entire growth is attributable to an increase in refinance activity. This is supported in part by additional capital resources from IDA subordinated debt (Tier 2 Capital), and direct lines of credit from IDA and KfW, but the majority of the growth is funded by CRRH raising its own bond financing on the capital markets of the region. The projections show a four-fold increase in bond financing from around FCFA 110 billion at end 2017 to FCFA 454 billion by 2022. IDA resources support a rapid but sustainable growth in CRRH's refinance activities.

## B. Technical

45. **The design of the operation relies on previous WBG projects.** CRRH conforms to best international practices with a focused mandate, strict eligibility criteria and successful bond issues. By statute, CRRH does not pay dividends to shareholders; a covenant in the project agreement will ensure that no dividends are paid during the life of the project.
46. **IDA's financing of long-term loans to financial institutions to improve the affordability of housing finance is supported by current market conditions.** Interest rates are relatively low by regional standards even in real terms, and inflation is nil. In this context, lengthening maturities of fixed rate mortgages has a greater impact on affordability (i.e. in the reduction of annual payments) than lowering the interest rate. The table below shows this impact on the annual repayments of a FCFA 15 million loan. The debt burden reduction around 40 percent implies a much larger impact in terms of number of households given the pyramidal shape of the income distribution.



## C. Financial Management

47. **A Financial Management (FM) assessment was conducted on the FM arrangements in March 2017.** The assessment was done on the WAEMU Commission and CRRH. The objective of the assessment was to determine whether the implementing entities have acceptable FM arrangements in place that satisfy the World Bank's OP/BP 10.00. These arrangements will ensure that the implementing entities (a) use project funds only for the intended purposes in an efficient and economical way; (b) prepare accurate and reliable accounts as well as timely periodic Interim Financial Reports; (c) safeguard assets of the



project, and (d) have acceptable auditing arrangements. The FM assessment was carried out in accordance with the FM Manual for World Bank Investment Project Financing Operations that became effective on March 1, 2010 but was issued (retrofitted) on February 4, 2015.

48. **The results of the assessment show that both the WAEMU Commission and CRRH do have adequate Financial Management systems in place (except for the WAEMU's nondisclosure of its audited financial statements), which will need to be strengthened to be satisfactory for the project by implementing the FM action plan shown under Annex 2.** The key actions to be done include: (i) preparing and submitting to the World Bank an acceptable Project Implementation Manual with adequate Financial Management arrangements by effectiveness; (ii) configuring the existing accounting software (plus IBIS in the case of CRRH) to meet the project's accountability requirements within three months after effectiveness for the WAEMU Commission and within six months after effectiveness for CRRH; (iii) appointing an external auditor for the project within six months after effectiveness; and (iv) including in the project audit TORs an annual interim review of the institutional internal controls applicable to the project (for the WAEMU Commission).
49. **The conclusion of the assessment is that the FM arrangements in place meet the World Bank's (IDA's) minimum requirements under OP/BP 10.00** and therefore are adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by the World Bank (IDA). However, the overall FM risk is substantial.

#### D. Procurement

50. **Roles.** The technical assistance will be subject to procurement processes, which shall be carried out by the WAEMU Commission for Component 3, and CRRH for Components 4 and 5.
51. **Regulations.** Procurement for goods, non-consulting, and consulting services will be carried out in accordance with the procedures specified in the "World Bank Procurement Regulations for IPF Borrowers" dated July, 2016 (Procurement Regulations) and the World Bank's Anti-Corruption Guidelines: Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016), as well as the provisions stipulated in the Financing Agreement. All procuring entities as well as bidders, and service providers, i.e. suppliers, contractors and consultants shall observe the highest standard of ethics during the procurement and execution of contracts financed under the project in accordance with paragraph 3.32 and Annex IV of the Procurement Regulations.
52. **Strategy.** The WAEMU Commission and CRRH have prepared their Project Procurement Strategies for Development (PPSD) which describe how procurement activities will support operations for the achievement of project development objectives and deliver Value for Money. The two PPSDs can be summarized as follow: the national and international environment is favorable for the procurement of goods and consultant services intended for the implementation of the Components 3, 4 and 5. The contracts are also open to the sub-regional and international market for specific supplies (specifically for consultant services) that may require the participation of companies located at the international level. A detailed procurement description and institutional arrangements can be found in Annex 2.
53. **Procurement Assessment.** Procurement capacities were evaluated in March 2017. The WAEMU



Commission has an internal procurement system which was recently enhanced. The setting up of an administrative complaint mechanism is under way and models of bidding documents are being elaborated. The WAEMU Commission is currently staffed with five procurements specialists who have a minimum qualification of a master's degree. One of them is very experienced in World Bank procedures and will be dedicated to the procurement of this project; a technical expert will be recruited under the project to strengthen the capacity of the WAEMU Commission on housing and housing finance. CRRH is not familiar with the World Bank procedures and there is no dedicated staff assigned to carry out procurement since its business model does not require many goods and services to be procured. Only two procurement methods are described in the existing manual. All procurement processes are initiated by the beneficiary service which proposes the evaluation commission. Mitigation measures will include (i) the recruitment of a procurement consultant to support the implementation of Components 4 and 5; (ii) the appointment of one agent dedicated to procurement, supported by the consultant within 3 months after effectiveness; and (iii) the amendment of the manual to introduce more options for bids evaluation and methods for consultant selection.

#### E. Social (including Safeguards)

54. **The social and environmental risk management appraisal summary is presented in section F,** pursuant to the applicable policy OP/BP 4.03 (World Bank Performance Standards for Private Sector Activities).

#### F. Environment (including Safeguards)

55. **OP/BP 4.03 will be applicable to the project in lieu of the World Bank's safeguard policies.** It is better suited for this project given that it will constitute private sector activities and is executed through wholesale (CRRH) and retail mortgage lenders (banks and non-banks), which are commercial private financial institutions. The project is a Financial Intermediary (FI) and is categorized as FI-2. OP/BP 4.03 will be applicable to project components which have Environmental and Social (E&S) risks and impacts, i.e. Components 1 and 2. These lending components cover refinancing of eligible loans originated by primary mortgage lenders for purposes of the construction or acquisition of residential housing or for the financing of both the acquisition of a building site and the cost of the construction of residential dwellings, including works for such construction. 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). Thus, it would be important for the project to ensure that refinancing is not supported by mortgage portfolios originated for properties constructed in a way that poses either credit or reputational risks to financiers. Technical assistance components (3, 4, and 5) are not expected to have E&S risks and impacts.
56. **Pursuant to OP/BP 4.03, E&S risks will be addressed through putting in place and continually strengthening a formal Environmental and Social Management System (ESMS).**<sup>4</sup> Such system will include processes and implementation capacity within the multilevel project structure (CRRH and primary mortgage lenders) to manage key identified E&S risks and impacts, such as building safety, locations in areas hazardous for human habitation, or prior resettlement or evictions issues (if it can be established that they are directly related to lending supported by the project). Commensurate with the

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<sup>4</sup> ESMS for the financial institutions is defined as is a systematic process to assess the environmental and social risks and impacts arising from their investees' business activities, manage the financial institutions' exposure to them, and improve operating efficiency and effectiveness.





project's nature, the approach to E&S risk management will be designed around screening (ex-post in case of retroactive financing, which will be based on a transaction/ loan sampling method) for specific E&S issues associated with mortgaged properties and end borrowers in accordance with applicable E&S requirement as follows: (i) applicable environmental and social national and local laws and regulations of the WAEMU Region states; and (ii) CRRH List of Excluded Activities<sup>5</sup> specific to mortgage finance that will specify circumstances in which primary mortgage/ property loans will not be eligible for CRRH refinancing based on associated E&S issues. It will also include a set of screening criteria built around key E&S risk areas as identified above that primary mortgage lenders should be aware of and include in their analysis of mortgage/housing loans. As part of operationalizing the ESMS, CRRH will integrate compliance with applicable E&S requirements as stated above into its overall eligibility criteria for refinancing housing finance loans, with adequate language included in financing agreements with retail mortgage lenders.<sup>6</sup> Further details regarding ESMS and implementation arrangements are provided in Annex 2.

#### G. Other Safeguard Policies (if applicable)

57. In accordance with World Bank OP/BP 4.03, the requirements of OP/BP 7.50, Projects on International Waterways, and those of OP/BP 7.60, Projects in Disputed Areas, may be applicable to any World Bank-supported private sector activity. Since it is not expected that any activities under this project will involve international waterways or disputed areas, the policies are not triggered. Should any activities impacting international waterway or disputed territories arise during the project, they would be excluded.

#### H. World Bank Grievance Redress

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

<sup>5</sup> In case of differences between the List of Excluded Activities as included in the CRRH E&S Policy in French and the English version as included in the financing agreement, the latter will prevail. However, the World Bank will provide the necessary assistance to CRRH in cases of difficulties in interpretation.

<sup>6</sup> This language will be tailored to recognize the capacity and procedural challenges with screening mortgage transactions for E&S risks and be based on the principle of gradual improvement ("best effort").



## VII. RESULTS FRAMEWORK AND MONITORING

### Results Framework

COUNTRY : Western Africa

WAEMU Affordable Housing Finance

#### Project Development Objectives

The development objective is to expand access to long-term housing finance in WAEMU, including for underserved households.

#### Project Development Objective Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Number of new mortgage loans issued by banks in WAEMU		Number	12000.00	32000.00	Annual	BCEAO	CRRH
Description: Number of mortgage loans issued by all banks in WAEMU, annual flow							
<b>Name:</b> Number of housing loans issued by banks and non bank financial institutions below FCFA 15 Million refinanced by CRRH		Number	1440.00	13000.00	Annual	CRRH	CRRH





Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: Number of housing loans issued by banks and non-bank financial institutions below 15 M FCFA refinanced by CRRH (cumulative) - measure of stock to assess the impact of CRRH on underserved markets							

### Intermediate Results Indicators

Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
<b>Name:</b> Outstanding bonds issued by CRRH		Amount(US D)	180000000 .00	740000000 .00	Annual	CRRH	CRRH
Description: Outstanding bonds issued by CRRH since inception - cumulative, does not take into account redemptions.							
<b>Name:</b> Number of non-bank financial institutions making use of CRRH refinancing window		Number	0.00	8.00	Annual	CRRH	CRRH
Description: number of non-bank financial institutions that will use the refinancing window of Component 2							
<b>Name:</b> A land and housing price index is established in a research centre, harmonized across all 8 countries and with effective data in at least 2 countries		Number	0.00	1.00	Annual	WAEMU Commission	WAEMU Commission



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
Description: It is expected that the index would be built in year three, and have data on at least two countries by the end of the project							
<b>Name:</b> Number of countries which implement recommendations from the advisory services on affordable housing programs		Number	0.00	4.00	Annual	WAEMU Commission	WAEMU Commission
Description: this indicator tracks the effective implementation of the recommendations arising from Component 3							
<b>Name:</b> A regional guarantee product for housing loans is available		Amount(US D)	0.00	1.00		CRRH	
Description: this indicator tracks the progress on Component 5, technical assistance to design a regional guarantee product for housing loans							
<b>Name:</b> Number of housing loans issued by non-bank financial institutions below 10 M FCFA and refinanced by CRRH		Number	0.00	3000.00		CRRH	
Description: This indicator reflects the housing loans issued only by-non bank financial institutions and which are refinanced by CRRH. It is cumulative.							
<b>Name:</b> Survey of a sample of beneficiaries by mid-term		Number	0.00	1.00			



Indicator Name	Core	Unit of Measure	Baseline	End Target	Frequency	Data Source/Methodology	Responsibility for Data Collection
review to provide feedback on terms and conditions of housing loans							
Description: Indicator of citizens' engagement. The survey is to be done by the mid-term review and will provide feedback to CRRH on terms and conditions of housing loans to end-borrowers.							



## Target Values

### Project Development Objective Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Number of new mortgage loans issued by banks in WAEMU	12000.00	16000.00	20000.00	24000.00	28000.00	32000.00	32000.00
Number of housing loans issued by banks and non bank financial institutions below FCFA 15 Million refinanced by CRRH	1440.00	2250.00	3500.00	5500.00	8900.00	13000.00	13000.00

### Intermediate Results Indicators

Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
Outstanding bonds issued by CRRH	180000000.00	230000000.00	310000000.00	420000000.00	540000000.00	740000000.00	740000000.00
Number of non-bank financial institutions making use of CRRH refinancing window	0.00	2.00	4.00	6.00	7.00	8.00	8.00
A land and housing price index is established in a research centre, harmonized across all 8 countries and with effective data in at least 2 countries	0.00	0.00				1.00	1.00
Number of countries which implement recommendations from the advisory services on affordable housing programs	0.00	0.00	0.00	1.00	2.00	4.00	4.00



Indicator Name	Baseline	YR1	YR2	YR3	YR4	YR5	End Target
A regional guarantee product for housing loans is available	0.00						1.00
Number of housing loans issued by non-bank financial institutions below 10 M FCFA and refinanced by CRRH	0.00	0.00	500.00	1000.00	2000.00	3000.00	3000.00
Survey of a sample of beneficiaries by mid-term review to provide feedback on terms and conditions of housing loans	0.00						1.00

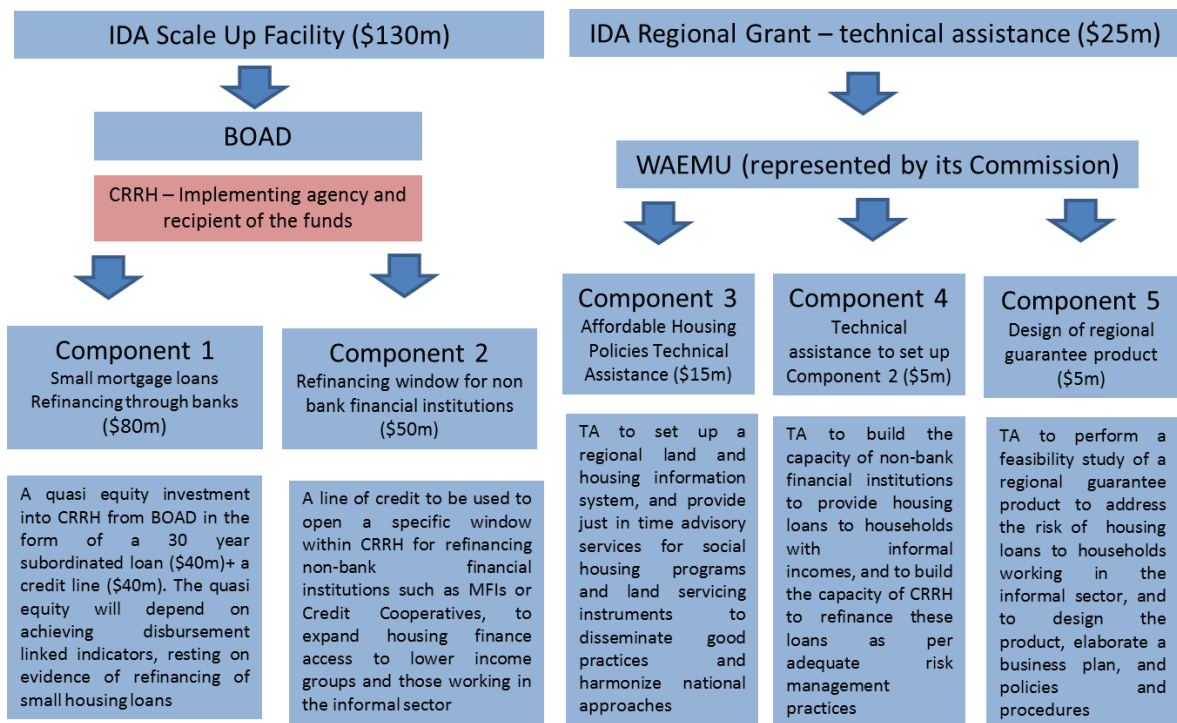


## ANNEX 1: DETAILED PROJECT DESCRIPTION

**COUNTRY:** Western Africa  
**WAEMU Affordable Housing Finance**

The development objective is to expand access to long-term housing finance in WAEMU including for underserved households. This will be done through financing and technical assistance, broken down in 5 components.

### Project Structure – Affordable Housing Finance in WAEMU



Components 4 and 5 implemented by CRRH on behalf of WAEMU through Subsidiary Agreement with the Commission

### 1. Financing

US\$130 million of Regional IDA Scale-Up facility will be lent to BOAD, and implemented by CRRH through the following components.

#### a) Component 1: Participating Banks Mortgage Refinancing (US\$80 million equivalent)

- The objective of the component is to expand the mortgage market across the region by extending housing finance to underserved households.** This will be achieved by expanding the availability of long term funding into the financial system, as well as strengthening CRRH's capacity to deliver on a larger scale. The component is split equally into a line of credit and a subordinated loan to CRRH through BOAD. US\$40 million will significantly boost the capital of CRRH which stood at US\$21 million in 2016, and the line of credit will allow a more direct transmission of IDA pricing subsidy to push lenders to go



down market. To CRRH's existing eligibility criteria for lenders and loans (such as clear title, insurance), the project will add the following: i) the eligible loans for both sub-components will be up to FCFA 15 million at origination; and ii) loans will be for construction or acquisition of homes, and refinancing from households who already have a mortgage loan will not be allowed.

*Sub-Component 1 (a) Line of Credit (LOC) for Small Mortgage Loans (US\$40 million equivalent)*

2. **This sub-component will increase refinancing of small loans by providing a pricing advantage for lenders to move down market.** The pricing of the line of credit is expected to be at the cost of the IDA Credit + 0.5 percent charged by BOAD + a 1 percent upfront margin to cover CRRH's risk of current operations and a few additional basis points for the FX risk coverage fund. As IDA's pricing will be variable, the rates will only be known at each disbursement when the EURIBOR will be fixed. Assuming the IDA rate is below 3 percent and CRRH's bond cost (without margin) remains below 6 percent, this would provide a temporary incentive of around 1.5 percent for lenders to do more lending in this segment compared to regular refinance rates. It will be at the discretion of the lenders whether they retain part of the pricing advantage to compensate them for high levels of credit risk and the cost of investing into new underwriting systems, or whether they pass it all onto borrowers in the form of lower loan rates. This approach is similar to the one used in the India Low Income Housing Finance Project (P119039) which had a similar design and incentive structure. The longer maturity of CRRH's refinancing allowed by the IDA funds (beyond the current 10 years) will provide an extra incentive to financial institutions. Subsequent refinance loans by CRRH will be priced at market rates and will depend on the rate at which its bond issues are priced.
3. **The beneficiaries of such loans are expected to include creditworthy self-employed households or those with modest incomes who are currently excluded from the market.** The main risk management tool used by lenders is direct debit from accounts where incomes must be allocated. To reach down the income distribution, lenders will need to explore other means of underwriting the loans and managing risks by investing in IT systems, staff training and overall infrastructure. The interest rate incentive in this LOC will help them meet this objective, and will compensate lenders for the extra risk they face.
4. **Transparency will be introduced in the pricing of the IDA LOCs.** The perceived risk is that interest rate incentive would be captured by lenders without a direct benefit for consumers. Limiting interest rates to the end beneficiaries would however be counter-productive and discourage banks from investing in this sector. The broader issue is that customers will be given access to a loan which they were not before. The question is therefore not one of cost but rather simply access. The Board of CRRH is expected to issue guidance to the banks on their pricing for the end user interest rates and CRRH's refinance rate will be widely communicated. Non-compliance with the origination objectives will lead to the interruption of new drawdowns or even the cancelation of existing funds.

*Sub-Component 1 (b) Tier 2 – Subordinated debt to CRRH (US\$40 million equivalent)*

5. **This sub-component will aim to strengthen CRRH's balance sheet allowing it to grow and leverage further resources through the bond market.** The extra support to CRRH's capital base will ensure that it is able to take on more assets without becoming capital constrained. This will make it easier for it to raise additional bond financing, potentially at a slightly lower cost. It is estimated that the market cost of financing could be as much as 0.25 percent lower with IDA's support (2016 bond cost was 5.85



percent).

6. **The subordinated debt will also fulfill two critical functions.** First, it will provide some risk mitigation for Component 2 where non-bank financial institutions will be lent to without making the equity contribution required from banks. The subordinated debt will provide an additional buffer that will be important for bond investors who may fear the impact of MFIs lending on CRRH's risk profile. Second, by investing the proceeds of the subordinated debt, CRRH will earn a return on these funds which will build up a cushion to partially hedge the currency risk as IDA lending will be in EUR.
7. **A portion of the subordinated debt will be eligible to be counted towards CRRH's regulatory capital requirements.** The current rules limit subordinated debt eligibility for Tier 2 to a ceiling of 50 percent of Tier 1. As at end 2016, Tier 1 equity in CRRH amounted to just over US\$14 million, which means that only US\$7 million of Tier 2 is eligible for capital requirements. This will change with the implementation of Basel 2 by BCEAO from 2018 which will allow the inclusion of equal amounts of Tier 1 and Tier 2 for capital requirement purposes.
8. **This sub-component will disburse in two equal portions of US\$20 million with a disbursement-linked indicator (DLI) used to incentivize the refinancing of affordable housing loans.** The DLI will require CRRH to issue a bond and refinance individual loans below FCFA 15 million for a total amount of FCFA 12,400 million. The refinanced sub-loans should comply with the eligibility criteria and their original amount should be below FCFA 15 million. The intention is to ensure continued access to the capital market rather than a crowding out effect caused by the IDA financing.

**b) Component 2: Non-Bank Financial Institutions Mortgage Refinancing (US\$50 million equivalent)**

9. **Seventy to eighty percent of the population in WAEMU works in the informal sector.** These categories are not served by the mainstream banking system, but by microfinance institutions and large cooperative networks (non-bank financial institutions or SFD in French). They serve 17 million clients, about twice as many as banks. Some of the networks are financially healthy and the largest are supervised by the BCEAO.
10. **Some cooperative networks finance housing, but for small amounts.** They are often micro-credits, from 2 to 5 years, which may go up to FCFA 5-10 million, and are primarily extended to salaried people. The main constraint to growth is the prudential requirement to fully match long-term loans with long-term liabilities, which is more stringent for non-banks than for banks. Six networks with experience in housing finance are grouped in a regional apex, the *Confederation des Institutions Financières*, which provides support to its members on training and product development.
11. **Under the project, CRRH will open a window to refinance housing loans extended by microfinance and cooperative institutions in good standing.** The objective of this window is to reach households working in the informal sector, by providing loans of adequate maturity and size between micro-credits and mortgages. The eligible institutions will have to demonstrate financial soundness, prior experience in providing housing finance, and meet prudential ratios – capital adequacy, NPL rates and liquidity. These conditions will apply to the borrowing apex entities (in case of cooperative networks) and to the primary lenders. MFIs that are subsidiaries of, or funded by, large banks could also be eligible with the parent's guarantee.





12. **The eligibility criteria for housing loans to be refinanced will reflect the development objectives.** First, loans should be significantly above micro-credits without bringing the lenders into unchartered territories, with a maximum amount of FCFA 10 million (US\$16,000), a minimum maturity of three years and maximum maturity of 10 years. Second, the focus will be on formal construction. Lenders should be able to oversee the quality of the construction and technical assistance may be provided to this end. Building in formal land sub-divisions will be prioritized, and obtaining building permits encouraged. Third, prudent underwriting standards will be set, including: i) loans to existing customers; (ii) for informal sector households: prior savings requirement, and a good credit history from previous loans; and (iii) in the absence of registered title, documentation that demonstrates the security of tenure. The eligibility criteria will be defined in the project implementation manual on the basis of a feasibility study that CRRH will conduct before end-2017.
13. **Securing CRRH's lending will differ from the model currently used with borrowing banks.** The CRRH funding will go through apex cooperative institutions, which will dispatch it between member institutions for eligible transactions.<sup>7</sup> There is a range of options to secure CRRH's support which include: i) pledging housing loan portfolios provided that they could be disposed of, or serviced by other institutions, after enforcement of the pledge; ii) the pledge of instruments in which apex entities invest the cash they pool –to the extent they keep meeting the liquidity reserve requirements; iii) the allocation of cash flows stemming from loan repayments to special accounts dedicated to the servicing of CRRH's loans. The percentage of the credit that will be allocated to a single institution will be capped to avoid risk concentration.
14. **Specific rules of intervention for MFIs will have to be defined before disbursement.** Currently, CRRH operates like a cooperative and only lends to its shareholders. This model is not applicable to this window since microfinance institutions are not allowed by regulation to take stakes in the capital of financial institutions. Thus, the IDA funds injected in subordinated debt will fill the gap. In addition, CRRH is considering adhesion fees. Specific rules of intervention for MFIs will thus have to be defined by CRRH.
15. **The WBG has contributed to similar market developments in other countries.** In India, technical assistance followed by a lending operation has supported the National Housing Bank to incentivize the entry of housing lenders in the informal sector since 2008. As a result, various Housing Finance Companies have been established with a specific focus on the informal sector. IFC built the capacity of the Self-Employed Women Association bank to develop a mortgage business line (it used to do only micro-credit for housing). In Mexico, the WBG supported the apex institution Sociedad Hipotecaria Federal to promote the development of housing loans by financial cooperatives and other MFIs beyond micro-credit. In both cases, IFC provided capacity building operations to financial cooperatives.

## **2. Technical assistance**

An SDR 18.1 million (US\$25 million equivalent) regional IDA grant to the WAEMU, represented by its Commission, will finance the technical assistance through three components:

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<sup>7</sup> Financial cooperatives in WAEMU are composed of apex bodies ("faitières") and individual institutions ("caisses de base") which together own the apex.



**c) Component 3: Affordable Housing Policies Technical Assistance (US\$15 million equivalent)**

16. **Despite pressure on the housing market, there are some encouraging new developments.** The sector has fallen behind the urbanization curve in the past 15-20 years. A large part of the housing stock lacks access to basic urban services and is made of temporary materials. The private sector has not filled the gap created by the decline of state-owned enterprises. The developer market is small and mostly unaffordable to the majority of the population. Few local developers have experience and only offer medium to small-size production capacity. More recently, large foreign developers have started doing more of their business in WAEMU. In the past five years, housing has become a national priority for governments, which have announced national social housing programs aiming at improving access to ownership, with ambitious targets of more than 280,000 social housing units over a period of 4-5 years. Social housing is defined by the price of the housing unit varying from FCFA 7.5 million in Niger to 20+ million in Togo. Those programs benefit from subsidies e.g. mobilization of land, national budget funding, and tax exemptions. Several developments are at an advanced stage of preparation or under construction. However, many constraints faced in past experiences have not yet been addressed:
- (a) **Lack of thorough housing diagnostics.** Government-led policies are designed without a sound and comprehensive understanding of the sector. Knowledge of demand is low, thus there is a lack of information to confidently inform social housing programs. It is also almost impossible to find data on the housing and land markets, such as volumes and prices, or analytical work that identifies constraints to housing production.
  - (b) **Lack of experience of the actors involved in the coordination of large social housing programs.** The governments or its subsidiaries are directly involved in the implementation of social housing programs and usually lack the experience of large-scale operations. Moving from a several hundred-unit operation to a +500ha operation involves considerable challenges that the institutions have not been prepared for. Even with a lot of efforts and innovative solutions, this has resulted in delays and additional costs that are ultimately transferred to the developers.
  - (c) **Insufficient capacity of the private sector to produce at scale.** The local private sector is still at the emerging stage. Many developers are in fact construction companies or material suppliers that are converting into developers without the actual know-how of that profession. The operating practices are relatively simple and construction is mostly handled by small contractors. The time of an operation remains long while modern technologies could reduce it by half, allowing for more rapid turnover, with smaller margins in percentage but larger volume of operations.
  - (d) **Expensive secured and serviced land in cities.** This is the main constraint to housing production for private actors. Land production is highly constrained in cities at all steps of the chain: lengthy and costly regulations in land administration, lengthy conflict resolution, unpredictable land servicing, and inefficient urban planning. Governments usually lack a sustainable mechanism to plan, finance and implement trunk infrastructure in cities, whereas needs are growing exponentially with urbanization. Ultimately, the delays and risks seriously affect operations' balance sheets, and the cost is transferred to the buyers.
17. **This component will build long-term capacity to support improvement of land and housing policy instruments** – institutional, financial, and regulatory – in order to support the development of an



affordable housing market. Considering the scope of the housing finance components, it will aim to get traction both in the developer market segment, as well as in auto-construction. These activities will also help strengthen the dialogue with national governments and could eventually lead to future World Bank support to WAEMU countries on social housing programs and urban land management.

Sub-component 3.1: Building the analytical data towards sound national housing policies (US\$4 million equivalent)

18. **The sub-component will build a regional land and housing information system.** This system will provide useful information to governments in preparation, monitoring and evaluation of national policies as well as to the private sector. The regional dimension will allow to bring together technical skills, which makes it more sustainable than if done at a national level. A feasibility study will be conducted to determine the design and financial model. The system is expected to be set up inside an existing institution as a research department.<sup>8</sup> The physical equipment will also be financed and manuals will be prepared to put in place indicators relevant across countries and beef up data collection methodologies. The sub-component will then support data collection and analysis for the preparation of a first set of national reports. Workshops will be organized to help governments lay out their visions and strategies for their national policies based on the data.

Sub-component 3.2: Just in time advisory support to national social housing programs (US\$3 million equivalent)

19. **The advisory services aim to accelerate the pace of housing production as part of the national social housing programs within the timeframe of the project.** Such support will be provided to the national governments and their subsidiaries involved in the implementation of those programs based on certain readiness conditions to ensure quick impact. The advisory services will be tailored to each country based on their particular needs, and will span particularly across financial engineering, project design, and project management. One primary objective will be to lower the burden of those operations on the national budgets to accelerate the delivery of trunk infrastructures, for example through design features allowing to open the operation to the free market and to speed up the turnover of the operation and create quick cashflow. Stronger coordination of the different tasks and interventions, with advanced planning and communication tools, will also help increase the pace of the project. The regional intervention will enable the bundling of advisory services for various countries in a single contract, which will be more attractive for international firms.

Sub-component 3.3: Addressing the constraints for access to land (US\$5.1 million equivalent)

20. **The sub-component will facilitate the production of secured and serviced land to allow land and housing developers to build at scale by moving away from business as usual and piloting innovative concepts at different steps of the land supply chain.** It will finance between four and six feasibility studies for instruments that can have a transformational impact on the land sector. Those feasibility studies will be conducted for pilot operations that have a potential to be financed and operationalized as well as a potential for replicability in the other countries. Countries will be invited to submit proposals through a call for proposals managed by the WAEMU Commission, best suited to show

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<sup>8</sup> At this stage of project preparation, no regional institution has been identified yet, but some that present competitive advantages will be approached, in particular the regional universities in the Africa Higher Education Centre of Excellence Project supported by the World Bank.



commitment. Several topics are particularly relevant considering the constraints in the market: (i) urban planning and building construction standards; (ii) land banks and wholesale developers; (iii) land financing instruments; and (iv) land titling.

Sub-component 3.4: Capacity building (US\$2 million equivalent)

21. **The sub-component will create several opportunities for public and private actors to build their capacity on skills that benefit from the regional dimension for economies of scale.** The capacity building program will include (i) trainings for urban planners/architects/land surveyors set up at the regional level through partnership with academic institutions; (ii) workshops for peer-to-peer learning/knowledge exchange for certain competencies based on demand; and (iii) a study tour for public officials in another developing country. A collaboration with Shelter Afrique is being considered to set up a training program for housing developers.

Project management, Steering Committee, meetings of national focal points and audits (US\$900,000 equivalent)

**d) Component 4: Technical Assistance for Non-Bank Financial Institutions and CRRH (US\$5 million equivalent)**

22. **The objective of this component will be to help non-bank financial institutions get access to the window dedicated to them within CRRH.** It will finance (i) advisory services required for the establishment of the window, such as the development of a risk management framework, the procedures, and legal contracts for refinancing agreements with non-banks; (ii) capacity building activities to CRRH to manage the risks of this segment and to non-bank financial institutions so that they can meet the eligibility criteria to access the window. Peer learning activities may also be financed to allow CRRH and non-bank financial institutions in WAEMU to learn from successful peers in adapting their underwriting criteria and process for housing finance to the informal sector (for instance India). It will also strengthen the capacity of banks and non-banks on environmental and social risk management. Finally, technical assistance may be provided to help non-banks oversee the quality of the construction in case of owner-driven construction.

**e) Component 5: Design of a Regional Guarantee Product for Housing Loans (US\$5 million equivalent)**

23. **To broaden the housing finance market to the households working in the informal sector, the project will fund the feasibility study and design of a guarantee product at the regional level.** This guarantee product or fund may also mitigate risks for households with high LTV loans. Different approaches can be considered: i) a risk sharing scheme partially protecting primary lenders when providing loans to the targeted populations; the scheme could act in coordination with guarantee funds that exist in a few countries (e.g. Senegal), in particular as a standard setter of re-insurer; ii) a credit enhancement product attached to the debt issued by non-bank financial institutions for the financing of long term housing loans; and iii) an insurance covering temporarily lenders while full titles are being established. This component will finance, in addition to the feasibility study, a business plan, financial model, and rules and procedures required to launch the guarantee product, as well as training programs for financial institutions that could benefit from it. The WBG has extensive experience in housing guarantee schemes with Morocco, and feasibility studies are included in projects under way in Pakistan, Indonesia and Tunisia; such expertise will be mobilized to review the feasibility study and



assist with the implementation, based on lessons learned in other countries.



## ANNEX 2: IMPLEMENTATION ARRANGEMENTS

COUNTRY: Western Africa  
WAEMU Affordable Housing Finance

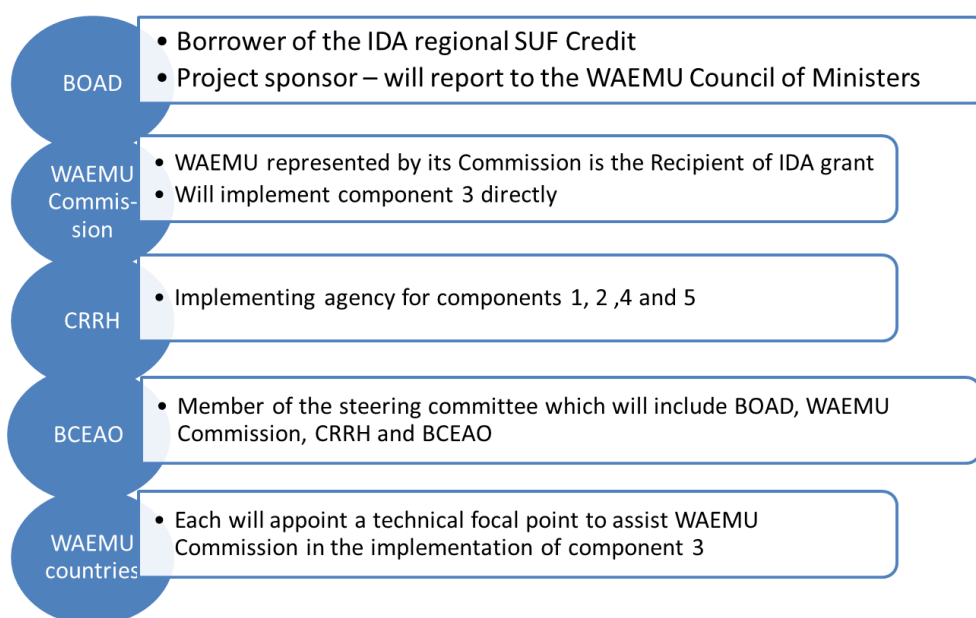
### Project Institutional and Implementation Arrangements

1. **The project will have two regional implementing agencies.** CRRH will implement the credit resources (Components 1 and 2 -US\$130 million) and Components 4 and 5 of the grant (US\$10 million), while the WAEMU Commission will implement Component 3 of the grant. The rationale for this split is that Components 4 and 5 directly support the implementation of Component 2, and CRRH has the capacity to work efficiently with financial institutions.
2. **Implementation of the IDA non-concessional Credit.** The IDA non-concessional SUF Credit will be lent to BOAD, the regional development bank for WAEMU, and then on-lent to CRRH. The CRRH is a private regional entity owned at 45 percent by public institutional investors, including BOAD its largest single investor and the IFC, and 55 percent by WAEMU banks. It is currently implementing a line of credit provided to BOAD by the KFW. A subsidiary agreement between BOAD and CRRH will detail the implementation modalities of the IDA credit. This agreement will spell out the mark-up to be applied on the funds transferred from BOAD to CRRH, as well as financial management, auditing and reporting by CRRH. The mark-up is justified by the opportunity cost in terms of lending potential since the IDA Credit will account for a significant portion towards BOAD's foreign currency borrowing and lending headroom.
3. **The IDA SUF credit to BOAD requires a waiver from the Board.** IDA SUF eligibility criteria refer to IDA member countries with low or moderate risk of debt distress and do not envisage regional institutions. Thus, the Project is seeking a waiver of the eligibility criteria to provide a non-concessional IDA credit from the SUF to BOAD, without a guarantee, to carry out the financing portion of the project. BOAD is a lead investor into CRRH with 18 percent of capital, and plays an important role in safeguarding CRRH's financial standing in light of its expansion to underserved households. The WAEMU countries have requested BOAD to take an active role in expanding affordable housing finance, to maximize opportunities provided by the uniform legal framework relating to mortgages across the region.
4. **Although IDA financing to BOAD would not benefit from the usual sovereign guarantee, the risk of non-payment is low.** BOAD has a strong financial position. BCEAO owns 47 percent of its capital and WAEMU countries another 47 percent. It is rated investment grade stable by Moody's and Fitch (Baa1/BBB), which is much higher than any individual sovereign (Senegal is B1). The rating is underpinned by its strong liquidity (access to the refinancing window of the BCEAO – contrary to other development banks), and by the strength of members' support. There is a robust mechanism to ensure that capital payments from shareholders remain timely: BCEAO collects a tax on financial transactions on behalf of member countries, which is placed in their BCEAO accounts and is used to make payments to BOAD in priority before the country can even access these funds. According to Moody's, the amount of tax collected by BCEAO every year more than covers the yearly capital payments to BOAD. BOAD has not had any default since its creation in 1973 – in case of a default, the shareholders would be liable.
5. **Implementation of the IDA Grant.** The WAEMU Commission is the regional executive arm of the



WAEMU. To ensure consistency between the grant and the credit and speed up execution, the following has been envisaged: i) the WAEMU Commission and BOAD will enter into an agreement on the implementation the project and a Steering Committee comprising BOAD, BCEAO, WAEMU Commission and CRRH will be established; ii) Components 4 and 5 will be implemented by CRRH; and iii) a dated covenant in the grant will require the Commission to start the implementation of Component 3 by 6 months after effectiveness. Technical focal points from each country will be appointed to help the WAEMU Commission implement activities under the Component 3 and ensure that each country benefits. The WAEMU Commission and CRRH will sign a subsidiary agreement to implement Components 4 and 5.

## Roles of WAEMU institutions



## Financial Management and disbursement arrangements

- A Financial Management (FM) assessment was conducted on the FM arrangements for the WAEMU Affordable Housing Finance Project.** The assessment was done on the WAEMU Commission and the CRRH. The objective of the assessment was to determine whether the implementing entities have acceptable FM arrangements in place that satisfy the World Bank's OP/BP 10.00. These arrangements will ensure that the implementing entities (a) use project funds only for the intended purposes in an efficient and economical way; (b) prepare accurate and reliable accounts as well as timely periodic Interim Financial Reports (IFRs); (c) safeguard assets of the project; and (d) have acceptable auditing arrangements. The FM assessment was carried out in accordance with the FM Manual for World Bank Investment Project Financing Operations that became effective on March 1, 2010 but was issued (retrofitted) on February 4, 2015.
- The WAEMU Commission and CRRH will be responsible for maintaining satisfactory FM arrangements throughout the life of the project.** These institutions will constitute the operational links with the





World Bank (IDA) on matters related to the implementation of the project. The Head of these institutions will be in charge of financial management for the project. The WAEMU Commission is familiar with the World Bank FM requirements and is currently managing the World Bank-financed Regional Program to Harmonize and Modernize Living Conditions Surveys (P153702). CRRH fiduciary staff will be trained on the World Bank's FM and Disbursement Guidelines.

8. **Budgeting Arrangements.** The WAEMU Commission and CRRH will prepare annual budgets based on their work plans and thereafter submit them to the World Bank at least two months before the beginning of their fiscal year for review and approval. The budgets will follow budgeting guidelines in the respective entity's FM Manuals and project implementation manuals. The annual budgets for the grant should be approved by the Steering Committee (composed of BOAD, BCEAO, WAEMU Commission and CRRH representatives) before the financial year they relate to begins. During the financial year, budgets will be monitored on a semi-annual basis using IFRs. The IFRs will compare the budget and actual expenditure and significant variances will need to be explained. These IFRs will be expected to be submitted within 45 days after the end of the reporting period to the World Bank.

### ***Accounting Arrangements***

9. **Accounting policies and procedures.** The WAEMU Commission and CRRH will use their institutional accounting policies and procedures for the project. However, to capture project specific FM requirements to meet the terms of the Financing Agreement, both institutions will prepare a Project Implementation Manual with adequate FM arrangements that are acceptable to the World Bank as an effectiveness condition.
10. **Accounting staff.** The WAEMU Commission and CRRH have qualified and experienced staff headed by a FM Manager. These arrangements are adequate to prepare the accounts of the project. All accounting staff from both implementing entities will be trained on World Bank FM and Disbursement Guidelines.
11. **Accounting information systems software.** The WAEMU Commission will use SAGE 1000. CRRH will use its refinancing software and IBIS (Integrated Banking Information System) that has an accounting information system. These should be adequate to prepare the project accounts but they both need to be configured to accommodate the new project's activities. This will involve acquiring accounting codes from the chart of accounts for the project's sources and uses (expenditure) of funds. In addition, IBIS and the refinancing software will need to be configured to meet the line of credit business accountability requirements arising from Component 1 (US\$40m) and Component 2 (US\$50m). The project will finance the configuration of these software systems to meet the project's accountability requirements. Systems configurations are to be completed within three months after project's effectiveness for the WAEMU Commission and within six months after effectiveness for CRRH. If required, financial statements for the IFRs can also be prepared using Microsoft Excel.
12. **Accounting standards.** The WAEMU Commission will use SYSCOHADA accounting standards which is commonly used amongst West African Francophone countries while CRRH will use "Plan Comptable Bancaire de l'UEMOA", which was recently updated to converge with International Financial Reporting Standards (IFRS) issued by the International Federation of Accountants. This updated version will become effective from January 1, 2018 as required by the BCEAO. The CRRH staff is being trained to





comply with these standards.

### ***Internal Control and Internal Audit Arrangements***

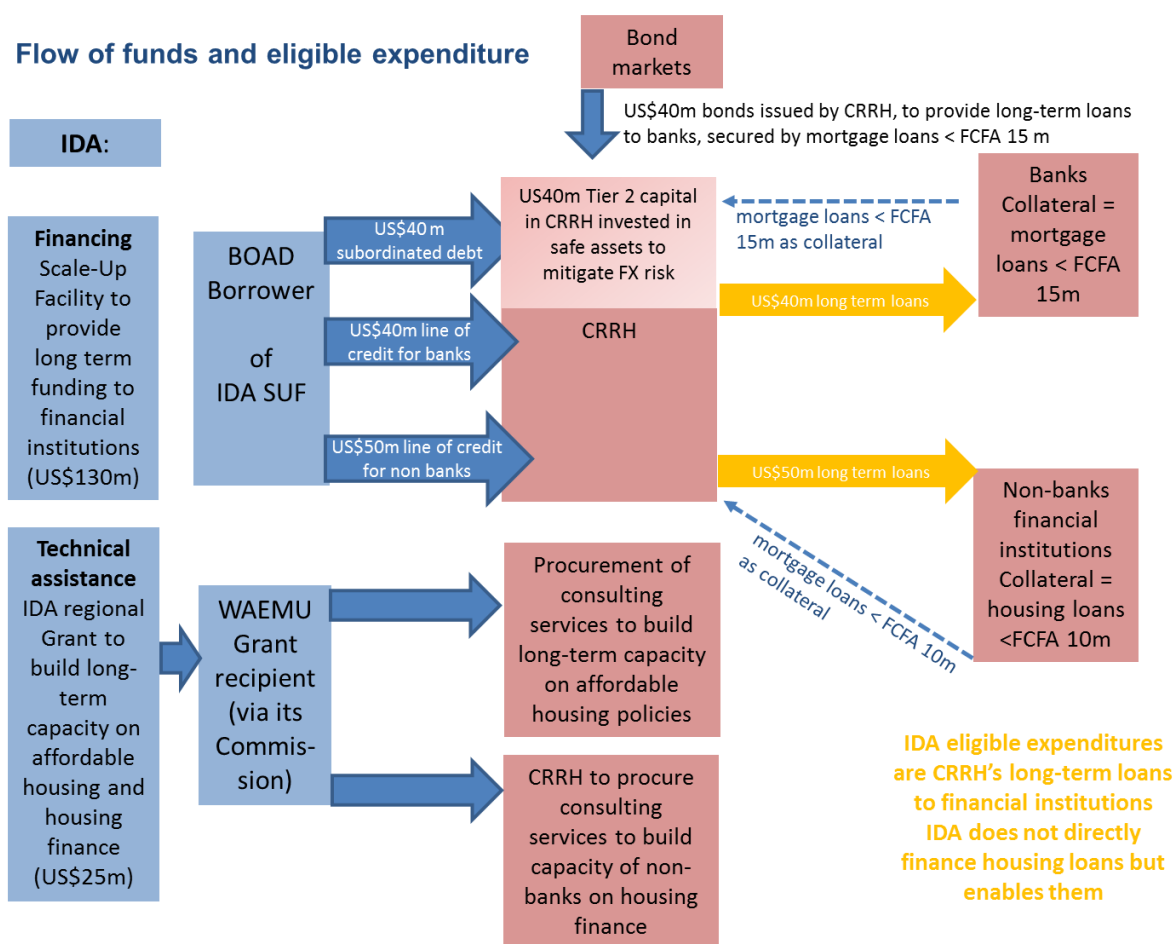
13. **Internal controls.** The internal control policies and procedures for the WAEMU Commission and CRRH will be documented in their FM Manual. Additional specific requirements related to the project will be documented in the Project Implementation Manual. These will be sufficient for the project.
  - a. **CRRH.** The external audit report for CRRH as at December 31, 2016 and management letter was reviewed. The external audit report had an unqualified (clean) audit opinion. The major internal control issues related to this project that will need to be mitigated mainly relate to the difficulty of banks that are refinancing their loans with CRRH to register mortgage certificates in the names of CRRH with the "Registre du Commerce et du Credit Mobilier". This is currently affecting 12 percent of CRRH's portfolio and their Board of Directors has set a deadline of July 31, 2018 to address this issue. To mitigate this risk in relation to the project, CRRH will only refinance housing loans that have unquestionable title with a commitment to CRRH to have a first lien on the property by the end of the project. CRRH's audit report also noted that it refinanced mortgage loans to related parties amounting FCFA 11,159 million representing 84 percent of the entity's capital. However, CRRH's business model is to refinance mortgage loans of its shareholders which are commercial banks hence this is their nature of business. CRRH has been exempted from the requirement that loans to related parties be capped at 20 percent of capital (article 45 of the banking law) in line with WAEMU Regulations.
  - b. **WAEMU Commission.** The audited financial statements of the WAEMU Commission have not been provided to the Association. Thus, a specific provision has been inserted in the Grant Agreement to seek the regular provision of the audited financial statements. In addition, the terms of reference of the external audit of the project will include an annual interim review of the institutional internal controls applicable to the project.
14. **Internal audit.** The WAEMU Commission and CRRH have internal audit units that should adequately conduct the internal audits of the project. However, both internal audit units need to include the project within their work plan to ensure that the audits are done semi-annually using a risk based approach. These semi-annual internal audit reports need to be submitted to the Bank within 45 days after the end of the semi-annual period. These audits should cover operations expenditure including per diems, travel advance, workshop costs and other soft expenditures, to ensure they are used in an economical manner and for the purposes intended. Internal Auditors will also be provided training on the World Bank's FM and Disbursement Guidelines.
15. **Audit Committee.** CRRH has a functional audit committee while the WAEMU Commission will have the Steering Committee, established under the grant, conduct the role of an audit committee. This role will need to be documented in the Project Implementation Manual. Audit committees are essential in ensuring that management addresses issues raised by both internal and external auditors. They also provide independence to the Head of Internal Audit who can report to them from a functional perspective while reporting to management from an administrative perspective.
16. **Governance and Anti-corruption arrangements.** To enhance transparency and accountability, the WAEMU Commission and CRRH will have to put the project's budget and audited financial statements



on their website each year. With respect to dealing with fraud and anti –corruption, the World Bank Anti-Corruption Guidelines referred to in the Financing Agreement will apply.

### **Funds Flow Arrangements**

17. **Funds flows for IDA SUF credit.** BOAD will borrow IDA SUF, and will on-lend the proceeds to CRRH. CRRH will repay the proceeds to BOAD as per IDA’s repayment schedule. CRRH will provide long-term loans to financial institutions secured against mortgage loans extended to underserved households. The eligible expenditure of the Project will be the long-term loans provided by CRRH to banks and non-bank financial institutions, which will enable them to lengthen the maturity of the mortgage loans extended to underserved households.



18. **Designated Accounts.** The WAEMU Commission will open one Designated Account (DA) to receive funds for Component 3 from the World Bank. CRRH will open three DAs. The first CRRH DA will finance eligible expenditures under Sub-Component 1.a using report based disbursement. The second CRRH DA will finance eligible expenditures under Component 2 using report-based disbursement. The third CRRH DA will finance eligible expenditures under Component 4 and 5 using report-based disbursement. Eligible expenditures under Subcomponent 1.b will be financed through reimbursements into a

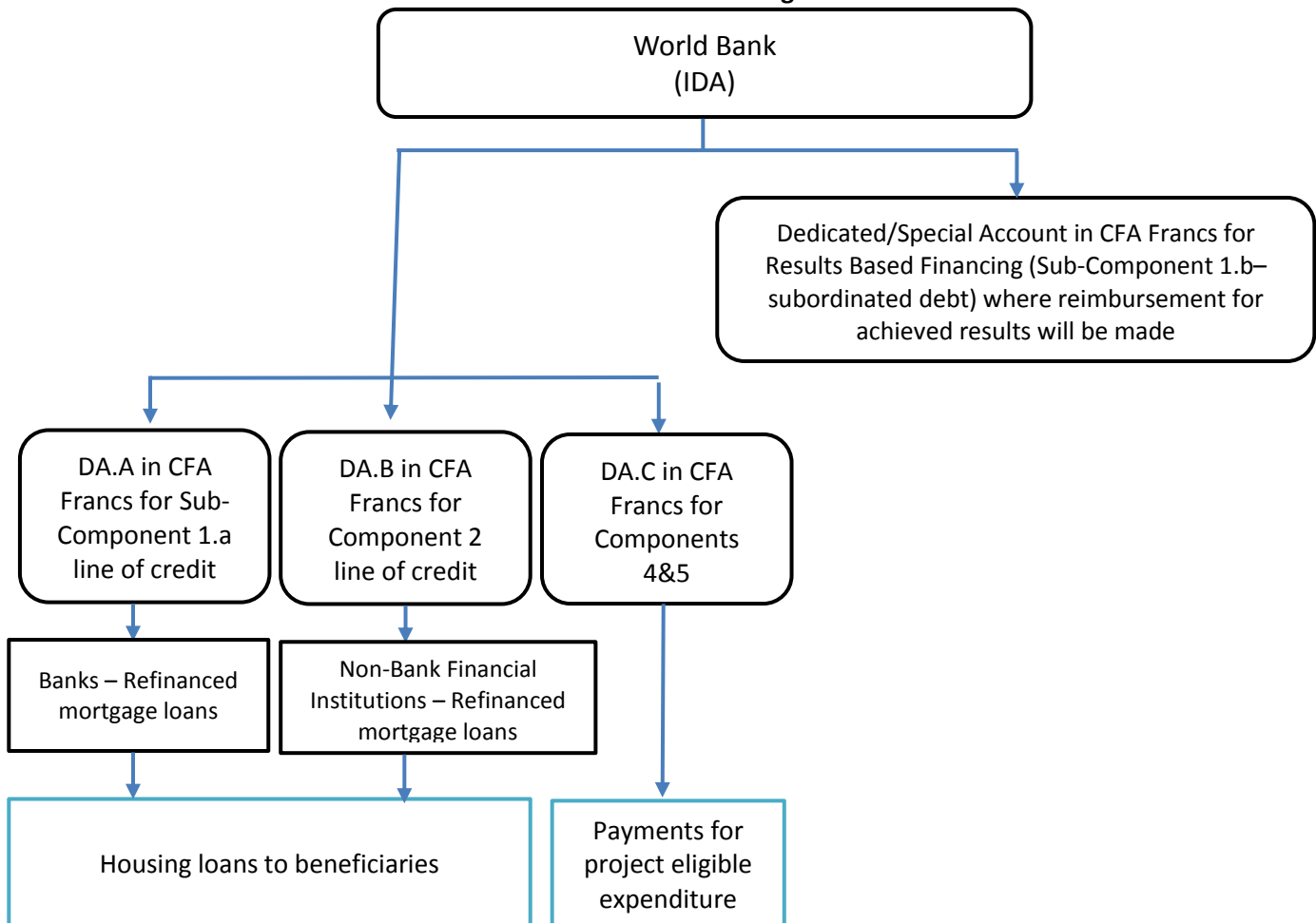


Dedicated/Special bank Account communicated by CRRH. All the DAs will be denominated in CFA Francs. The DAs will be maintained in either the central bank or a commercial bank acceptable to the World Bank.

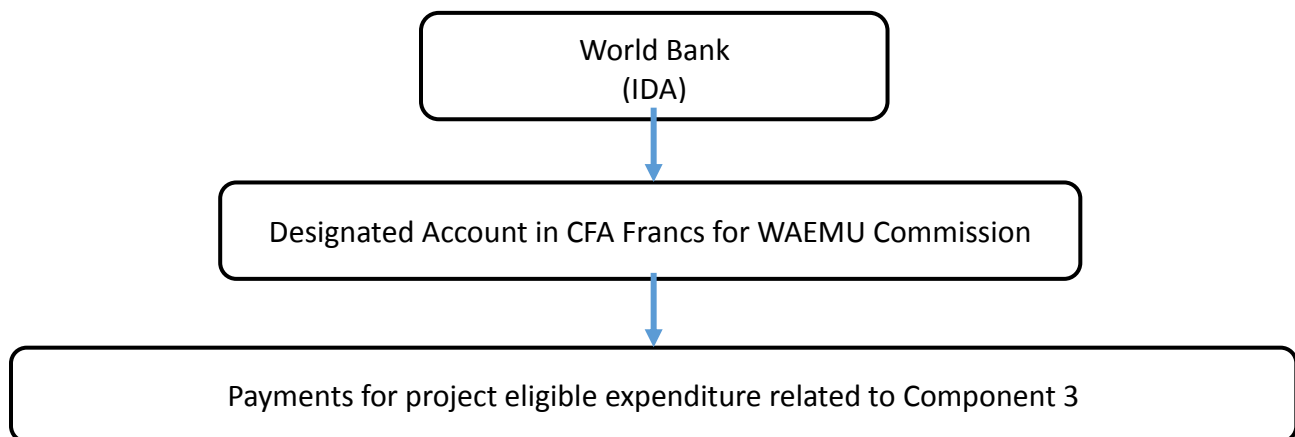
19. **The signatories to the Designated Accounts** should be in line with the FM Manuals of the implementing entities and they should be submitted to the World Bank between the signing of the project and its effectiveness. Payments for eligible expenditure can be made from the DAs.
20. **Report based disbursement** will be used for funds disbursed to the DA of the WAEMU Commission (US\$15 million related Component 3) and of CRRH totaling US\$100 million equivalent, including Sub-Component 1.a (US\$40m), Component 2 (US\$50m), Component 4 (US\$5m) and Component 5 (US\$5m). Upon effectiveness, a Withdrawal Application will be submitted to the World Bank supported by a six-month cash flow forecast. The World Bank following the approval of the Withdrawal Application will disburse funds to the DA. Thereafter, Withdrawal Applications together with Interim Financial Reports supported by a six-month cash flow forecast will have to be submitted to the World Bank within 45 days after the end of the calendar semi-annual period, in order for funds to be disbursed to the DA.
21. **Results based disbursement** will be used to disburse funds to the CRRH DA upon conducting an independent verification of the Disbursement Linked Results (DLRs). These relate to the subordinated debt of Component 1.b (US\$40 million). Upon verification of the DLRs by an Independent Verification Agency and submission of a reimbursement Withdrawal Application, funds will be disbursed to the CRRH DA receiving reimbursements related to the DLRs.
22. **Contractual arrangements between CRRH and banks/non-bank financial institutions.** CRRH will be disbursing funds under Component 1 (US\$40 million line of credit) to commercial banks and Component 2 (US\$50 million) to non-bank financial institutions that are providing mortgages/housing loans to beneficiaries. CRRH will have contractual arrangements with these institutions to ensure funds are utilized for the purposes intended. Accountability of the US\$130 million to the Bank for Components 1 and 2 will be the responsibility of CRRH.



**CRRH Funds Flow Diagram**



**WAEMU Commission Funds Flow Diagram**





### **Disbursement Arrangements**

The project will have a hybrid disbursement arrangement based on the components that will use report based and result based disbursement methods as shown in the table below.

<b>Component</b>	<b>Implementing Entity</b>	<b>Report Based Disbursement</b>	<b>Results Based Disbursement mainly through reimbursements</b>
Component 1	CRRH	US\$40 million line of credit. Each disbursement will be subject to presenting a pipeline of requests to refinance eligible loan portfolios.	US\$40 million disbursed in 2 equal portions of US\$20 million upon independent verification of DLR. The DLR will relate to CRRH issuing a bond and refinancing individual loans below FCFA 15 million for a total amount at least equal to FCFA 12,400 million (equivalent to US\$20 million at the time of appraisal).
Component 2	CRRH	US\$50 million line of credit. Each disbursement will be subject to presenting a pipeline of requests to refinance eligible loan portfolios.	
Component 3	WAEMU Commission	US\$15 million	
Component 4	CRRH	US\$5 million	
Component 5	CRRH	US\$5 million	
<b>Total</b>		<b>US\$115 million</b>	<b>US\$40 million</b>

23. **The two lines of credit of Components 1 and 2 are expected to be disbursed in two portions.** Up to half of the line of credit may be disbursed as an advance subject to CRRH presenting a pipeline of requests to refinance eligible loan portfolios. The subsequent disbursements under the line of credit will amount to the eligible expenditure effectively accounted for under the first disbursement. At project closing, any unutilized portion of the Lines of Credit will be refunded to IDA. As an ongoing covenant, CRRH will issue bonds at least every 18 months.
24. **Other disbursement methods that can be used by the WAEMU Commission and CRRH in addition to report based disbursements are direct payments, reimbursements and special commitments (letters of credit).** If ineligible expenditures are found to have been made from the DAs, the WAEMU Commission and CRRH will be obliged to refund the same. If the DA receiving report based disbursements remain inactive for more than six months, the World Bank may reduce the amount advanced. The World Bank will have the right, as reflected in the terms of the Financing Agreement, to suspend disbursement of the funds if significant conditions, including reporting requirements, are not complied with. Additional details regarding disbursement will be provided in the disbursement letters.
25. **Retroactive financing related to the DLRs achieved 12 months before the signing date of the Financing Agreement can be made up to 20 percent of the IDA credit.** This will be on condition that the project implementation arrangements are met including fiduciary and environmental and social risk management procedures required for IDA funding and inter alia the activities financed by retroactive



financing are related to the development objectives and are included in the Project description.<sup>9</sup>

26. **Eligible Expenditure Programs (EEPs).** These will be used to account for Results Based Financing operations. They will be DLRs that are achieved and verified by an Independent Verification Agent. For Sub-Component 1.b the EEPs will be the refinancing, via bonds issued by CRRH, of mortgage loans below FCFA 15 million for each beneficiary at origination. The EEPs will exclude advances. The EEPs will be submitted to the World Bank semi-annually as part of the Interim Financial Report to account for funds disbursed under Results Based Financing.
27. **Verification of DLRs.** This will be done at each disbursement request by an Independent Verification Agent who will submit a report to the World Bank confirming the results achieved and the EEPs incurred. This same report will be submitted to CRRH who will prepare a withdrawal application that will be endorsed by BOAD as per the Subsidiary Agreement. The withdrawal application will be submitted to the World Bank to reimburse funds associated with the DLRs achieved.
28. **Carry forward of amounts not disbursed.** If the Association has received only partial evidence of compliance under the DLI and/or the recipient has not presented enough eligible expenditures under the EEPs to disburse the full planned amounts, only part of the full planned amount will be disbursed. The Association may, at its option, authorize that the unwithdrawn portion of the financing resulting from this lack of evidence be carried forward to the subsequent withdrawals, provided that, if this occurs, the amount to be disbursed by the Association, in the aggregate under all subsequent withdrawals, shall not exceed 100 percent of the sum of the total amounts of EEPs incurred at that time.
29. **The World Bank will keep track of funds disbursed under Results Based Financing based on verified DLRs and accountability of these funds using EEPs.** By project closure, EEPs are expected to fully account for all funds disbursed. The 2 DLIs under Component 1.b totaling US\$40 million are shown in the table below.

DLI – component 1	Amount (US\$ million)
DLI 1: CRRH has issued a bond in the regional capital market and refinanced eligible mortgage loans for Participating Banks, for a total amount of at least FCFA 12,400,000 with the proceeds of the bond.	20
DLI 2: CRRH has issued an additional bond in the regional capital market and refinanced additional eligible mortgage loans for Participating Banks, for a total amount of at least an additional FCFA 12,400,000 with the proceeds of the additional bond.	20
<b>Total</b>	<b>40</b>

### *Financial Reporting Arrangements*

30. **The WAEMU Commission and CRRH will prepare semi-annual un-audited IFRs in form and content**

<sup>9</sup> Environmental and social risk management procedures applied to retroactive financing will involve ensuring/ verifying that mortgage loans submitted for refinancing meet applicable E&S requirements. However, in recognizing the challenges for ex-post screening, such verification will be done based on a sampling method and representation of the screening done by primary mortgage lenders to CRRH at the time of applying for refinancing.



**satisfactory to the World Bank, which will be submitted to the World Bank within 45 days after the end of the reporting period.** The formats and contents of the IFR have been agreed between the Bank and the WAEMU Commission and CRRH. CRRH can combine the IFRs for both report based and results based disbursements as long as disclosures related to the EEPs and verified DLRs are included. CRRH will in addition to the World Bank, send its IFRs to BOAD and the WAEMU Commission in accordance with the terms of their Subsidiary Agreement. The contents of the IFR for the WAEMU Commission and CRRH will include the following information to account for project funds disbursed using report based disbursement:

- Statement of Sources and Uses of Funds;
- Statement of Uses of Funds by Project Activity/Component.
- Designated Account Activity Statement;
- Bank statements for both the Designated and Project Account and related bank reconciliation statements;
- Summary statement of Designated Account expenditures for contracts subject to prior review; and
- Summary statement of Designated Account expenditures not subject to prior review.

31. The contents of the IFR for CRRH related to results based disbursement, will in addition, include the following:

- Statement of Reimbursable EEPs
- DLIs reconciliation Form
- List of DLIs achieved and verified
- Statement of Disbursement Linked Results.

32. **The WAEMU Commission and CRRH will also prepare the Project's annual accounts/financial statements** within three months after the end of the accounting year in accordance with accounting standards acceptable to the World Bank. The project audited financial statements will be required to be submitted to the World Bank within six months after the end of the fiscal year.

#### ***External Audit Arrangements***

33. **The external audit of the project's funds will be done by an independent private external auditor acceptable to the Bank for CRRH and the WAEMU Commission.** The cost of hiring a private audit firm will be met by the project. All audits should be carried out in accordance with International Standards on Auditing.

34. **The TOR for the audits have been agreed with the World Bank.** For CRRH, the TOR will ensure that DLIs/DLRs are audited as well as EEPs. This will imply that the external auditors also double as the independent verification agent of the DLRs. For cases where DLIs/DLRs are verified on a semi-annual basis, interim external audits of the project will be done. The appointment of the external auditors should be done within six months after effectiveness. Audit reports together with management letters should be submitted to the World Bank within six months after the end of WAEMU Commission's and CRRH's fiscal year, which is December 31. Audit reports will be publicly disclosed by the World Bank Group in accordance with the World Bank's disclosure policy. For the WAEMU Commission, the terms of reference of the external audit of the project will include an annual interim review of the institutional internal controls applicable to the project.





**Table 1: Financial Management Action Plan**

No.	Action	Due Date	Responsibility
1	Agree on the format of Interim Financial Reports and External Audit Terms of Reference. For the WAEMU Commission, the terms of reference of the external audit of the project will include an annual interim review of the institutional internal controls applicable to the project	By negotiations [DONE]	WAEMU Commission and CRRH
2	Prepare and submit to the Bank an acceptable Project Implementation Manual with adequate Financial Management arrangements.	Effectiveness Condition.	WAEMU Commission and CRRH
3	Submit semi-annual internal audit reports to the Bank within 45 days after the end of the audit period.	Financial Management Covenant in Financing Agreement	WAEMU Commission and CRRH
4	WAEMU Commission and CRRH to configure the existing accounting software to accommodate the new project's accounts. In addition, CRRH will also configure IBIS and the refinancing software to meet the line of credit business accountability requirements related to Component 1 & 2.	Within three months after effectiveness for WAEMU commission and within six months after effectiveness for CRRH (Dated Covenant in Financing Agreement).	WAEMU Commission and CRRH
5	World Bank Group (WBG) Financial Management and Disbursement training for WAEMU Commission and CRRH's accountants and internal auditors.	Within three months after effectiveness	WBG, WAEMU Commission and CRRH
6	Appoint an external auditor for the project within 6 months after effectiveness.	Within six months after effectiveness (Dated Covenant in Financing Agreement).	WAEMU Commission and CRRH
7	Include on CRRH and WAEMU Commission's website, the project's budget and financial statements to enhance transparency and accountability of the project's activities.	Monitored during implementation.	WAEMU Commission and CRRH

35. **Financial covenants.** Financial covenants are the standard ones as stated in the Financing Agreement Schedule 2, Section II (B) on FM, Financial Reports and Audits and Section 4.09 of the General Conditions.
36. **Implementation Support Plan.** FM implementation support missions will be carried out once a year for all the implementing entities based on their moderate FM residual risk rating. Implementation Support will also include desk reviews such as the review of the IFRs and audit reports. In-depth reviews and forensic reviews may be done were deemed necessary. The FM implementation support will be an integrated part of the project's implementation reviews.
37. **Conclusion.** The conclusion of the assessment is that the FM arrangements in place meet the World Bank's (IDA's) minimum requirements under OP/BP 10.00 and therefore are adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by the World Bank (IDA). The overall FM risk is substantial and will be mitigated through the actions described above.





## Procurement

38. **Procedures.** The technical assistance - Components 3, 4 and 5 - will be subject to procurement. Procurement for goods, non-consulting, and consulting services for the project will be carried out in accordance with the procedures specified in the “World Bank Procurement Regulations for IPF Borrowers” dated July, 2016 (Procurement Regulations) and the World Bank’s Anti-Corruption Guidelines: Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants (revised as of July 1, 2016), as well as the provisions stipulated in the Financing Agreement.
39. **Procurement documents.** All goods and non-consulting services will be procured in accordance with the requirements set forth in the Section VI of the Procurement Regulations, and the consulting services will be procured in accordance with the requirements set forth in the Section VII of the Procurement Regulations, the Project Procurement Strategy for Development (PPSD), and Procurement Plan approved by the World Bank. The Procurement Plan, including its updates, shall include for each contract (a) a brief description of the activities/contracts; (b) the selection methods to be applied; (c) the cost estimates; (d) time schedules; (e) the World Bank’s review requirements; and (f) any other relevant procurement information. The Procurement Plan covering the first 18 months of the project implementation was approved by the World Bank by negotiations and any updates shall be submitted to the World Bank’s approval. The Recipient shall use the World Bank’s online procurement planning and tracking tools to prepare, clear and update its Procurement Plans and conduct all procurement transactions.
40. **Procurement Assessment of the WAEMU Commission.** Procurement capacities were evaluated in March 2017. The WAEMU Commission has an internal procurement system that is the basis of its Regulation (*Règlement financier*) dated 2008 and its Procurement Regulation (*Règlement d’exécution sur la passation des marchés*) dated 2009 and revised in 2014. Taking advantage of the Public Reform Project financed by AfDB and focusing on procurement reforms within its member countries, the WAEMU Commission enhanced its own internal system and procurement procedures. The system comprises a central commission called ‘*Commission des marchés et des contrats*’ established within the Budget Department (*Département des services administratifs et financiers*), and deconcentrated commissions based in sector departments, which work for the recruitment of consultant services relevant to their sectors. Each commission is chaired by the Chief of Staff from the relevant department and comprises clearly identified members. The setting up of an administrative complaint mechanism is under way. Models of bidding documents are also being elaborated. The WAEMU Commission is currently staffed with five procurements specialists who have a minimum qualification of a master’s degree. The assessment found that one of them has already implemented a World Bank-financed project and is very experienced in World Bank procedures. This staff member will be dedicated to the procurement of this project.
41. **Procurement assessment of CRRH.** The assessment was conducted in May 2017. It revealed that CRRH is not familiar with the WB procedures and there is no dedicated staff assigned to carry out procurement since its business model does not require many goods and services to be procured. There are only two procurement methods (Open competitive and limited competitive) described in the



existing manual. The procurement process is under the approval of the General Director if the estimate amount has been budgeted and is less than FCFA 10 million (US\$17,000) and under the approval of the Board if the estimate cost is over and not budgeted. All procurement processes are initiated by the beneficiary service which proposes the evaluation commission. The evaluation report is submitted to the approval of the authority depending of the amount.

42. **Project Procurement Strategy for Development.** The WAEMU Commission and CRRH (with TA from the WB) have prepared their Project Procurement Strategies for Development (PPSD) which describe how procurement activities will support project operations for the achievement of project development objectives and deliver Value for Money. The two PPCDs can be summarized as follow: the national and international environment is favorable for the procurement of goods consultant services intended for the implementation of the Components 3, 4 and 5 of the project. The contracts are also open to the sub-regional and international market for specific supplies (specifically for consultant services) that may require the participation of companies located at the international level.
43. **Selection Methods & Arrangements and Market Approach Options:** The WAEMU Commission and CRRH will use the selection methods & arrangements and market approach options in accordance with the Procurement Regulations. Open National Market Approach is a competitive bidding procedure normally used for public procurement in the country of the Borrower and may be used to procure goods, works, or non-consultant services provided it meet the requirements of paragraphs 5.3 to 5.6 of the Procurement Regulations. The thresholds for specific market approaches and selection methods and the Bank's prior review thresholds are indicated in the below table:

**Table 2: Thresholds\*, Procurement Methods, and Prior Review**

Note: The thresholds are for all countries unless indicated otherwise for specific items.

No	Expenditure Category	Contract (C) Value Threshold* eq. US\$	Selection Methods & Arrangements and Market Approach Options	Contracts Subject to Prior Review /eq. US\$
1	Goods, IT and non-consulting services	WAEMU Commission: $C \geq 1,000,000$ CRRH: $C \geq 500,000$	Open Competition International Market Approach	$\geq 2,000,000$
		WAEMU Commission: $100,000 < C < 1,000,000$ CRRH: $100,000 < C < 500,000$	Open Competition National Market Approach	None
		$C \leq 100,000$	RfQ	None
2	consultant firms	All values	a. Quality Cost Based Selection (QCBS); b. Fixed Budget Based Selection (FBS); c. Least Cost Based Selection (LCS); d. Quality Based Selection (QBS); f. Direct Selection; and	$\geq 1,000,000$
		Consultant's Qualifications Based Selection (CQS): $C \leq 300,000$	e. Consultant's Qualifications Based Selection (CQS)	



No	Expenditure Category	Contract (C) Value Threshold* eq. US\$	Selection Methods & Arrangements and Market Approach Options	Contracts Subject to Prior Review /eq. US\$
3	Selection of Individual consultants	All Values	All Approaches	≥ 300,000

\*These thresholds are for the purposes of the initial procurement plan for the first 18 months. The thresholds will be revised periodically based on re-assessment of risks. All contracts not subject to prior review will be post-reviewed. The short list may comprise entirely national consultants, if the assignment is below US\$200,000 for WAEMU Commission and US\$100,000 for CRRH. In case of Engineering & construction supervision This threshold is below or equal to US\$400,000 for WAEMU Commission and US\$200,000 for CRRH.

44. **Procurement Risk Rating:** The project procurement risk prior to the mitigation measures is “Substantial”. The risk can be reduced to a residual rating of “Moderate” upon consideration of successful implementation of the mitigation measures.

45. The risks and mitigation measures are provided in the table below:

**Table 3: Risks and Mitigation Measures - Procurement**

Procurement Risk	Mitigation measure	Responsibility and Deadline	Risk level Initial/residual
CRRH			
Weak capacity of CRRH on the World Bank Procurement Procedures. The CRRH will need to build more capacity	1. recruitment of a procurement Consultant to build the procurement capacity of CRRH	CRRH Within 3 months after effectiveness	Substantial /Moderate
The CRRH has no experienced staff dedicated to procurement	1. Nominate one CRRH agent to be dedicated to procurement  2. Amend the Manual in order to: <ul style="list-style-type: none"> <li>- introduce more options for bids evaluation;</li> <li>- provide methods for consultant selection;</li> <li>- agree on complaint resolution mechanism and reflect it in the Manual; and</li> </ul> 3. Set out the detailed procedures for maintaining and providing readily available access to project procurement records.	CRRH Within 3 months after effectiveness	Substantial /Moderate
the evaluation of bids for works and goods is based on a scoring system which does not take account of the complexity of the contract		Manual by effectiveness	
the methods for the consultant selection are not clearly described in the existing manual			
there is no complaint resolution mechanism			
No external audit is conducted on procurement operations			

## Environmental and Social (including safeguards)

46. **Per the requirements of OP/BP 4.03, 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 existing and/or prospective business activities.** In line with the



nature of the project, WAEMU Affordable Housing Finance ESMS will be designed to enable screening for specific E&S risks most relevant to mortgage finance and considering the project's multi-level structure.

47. **Accordingly, CRRH will develop an E&S policy, procedures, and internal capacity (i.e. designating staff with clear responsibility for E&S risk management) which together will constitute an ESMS at CRRH's level.** CRRH has already prepared such E&S policy and procedures, which have been adopted by its Board on June 21, 2017, and CRRH has demonstrated substantial commitment to practical implementation with steps to be taken over the duration of the project according to the conditions of World Bank clearance of the CRRH E&S Policy and Procedures that have been communicated to the client in a clearance memorandum.<sup>10</sup> Since the establishment and disclosure of the ESMS is also an effectiveness condition of the project, the same will be formally communicated to the Client as part of World Bank confirmation on fulfillment of effectiveness conditions. CRRH will also establish, and thereafter maintain through the period of implementation of the project, an easily accessible grievance redress mechanism acceptable to the World Bank, to address feedback and grievances relating to the project.<sup>11</sup>
48. **CRRH and participating financial institutions will also manage the working conditions of their workforce** in accordance with relevant aspects of the World Bank Performance Standard 2 on Labor and Working Conditions,<sup>12</sup> as may be relevant to the financial sector.
49. **E&S aspects will be implemented in a coordinated manner with the overall CRRH lending procedures that have been already well-established and institutionalized in operating rules and manuals.** CRRH will ensure that, as part of their overall risk management, participating financial institutions adequately screen transactions for key E&S risks and represent to CRRH in writing that such screening against E&S requirements was completed for all transactions submitted for refinancing; most importantly, that no activities ineligible on E&S grounds – as stated in CRRH List of Excluded Activities – are included in the portfolios provided for refinancing. This condition will form part of CRRH's eligibility criteria.
50. **To that extent, many primary mortgage lenders that are expected to benefit from CRRH refinancing have already established their own E&S policies and procedures and have developed internal capacity for E&S risk management.** Where necessary, these institutions will be asked to enhance their existing E&S arrangements to enable screening for E&S risks in their mortgage/ housing finance operations. As many banks belong to regional groups, they are expected to consistently apply their E&S policies to all country subsidiaries/branches, thus enabling streamlined implementation and capacity building at participating institutions. CRRH will exercise reasonable efforts to support them in meeting CRRH's E&S requirements, including developing supporting tools (such as templates for housing finance screening questionnaires, representation form) and training. Sharing of experiences and lessons learned around E&S risk management can also be considered with other housing finance projects supported by the World Bank, such as Nigeria National Housing Finance Program, India Low Income Housing Finance Project, and Pakistan Housing Finance Project. IFC as CRRH's shareholder may also support the establishment and gradual improvement of the ESMS. Participating financial institutions

<sup>10</sup> As a matter of consistently applying the principle of gradual improvement to the E&S systems and capacity.

<sup>11</sup> Such mechanism may be linked to the existing mechanism developed and implemented by BOAD.

<sup>12</sup> [http://www.ifc.org/wps/wcm/connect/b07c56804a5872ccbb76bf8969adcc27/PS2\\_French\\_2012.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/b07c56804a5872ccbb76bf8969adcc27/PS2_French_2012.pdf?MOD=AJPERES)



will be asked to provide annual reports to CRRH on implementation of these measures and CRRH will, in turn, provide a consolidated report to the Bank.

51. **BOAD, which is the Borrower for the credit and will channel funds to CRRH, has also developed substantial capacity for E&S risk management** and will be expected to support CRRH in the establishment and operationalization of the ESMS.
52. **The project will, to the extent possible within its TA budget (e.g. Component 4), support CRRH and participating institutions in enhancing processes and capacity for E&S screening as it relates to mortgage lending.** This will primarily include support for (i) an E&S expert/ consultant to assist CRRH staff appointed to be formally in charge of E&S risk management; (ii) technical assistance to participating financial institutions in enhancing their ESMS with practical tools – e.g. a screening questionnaire - focused on housing finance; and (iii) E&S training of CRRH and participating institutions following the “Train the Trainers” approach. Tentatively, training events would be planned at the regional level and include designated staff that would then ensure efficient implementation within all country divisions/ subsidiaries/ branches. A budget for these activities is estimated at US\$200,000 and included in the overall project budget.

### Monitoring and Evaluation

53. **CRRH will be in charge of monitoring PDO indicators.** A BCEAO study provided the baseline number of mortgage production in 2013. The new accounting framework for banks “*Plan Comptable bancaire*” implemented from 2018, will require the identification of residential mortgage loans, so the data will be available. CRRH already segments its portfolio of refinanced sub-loans based on the original amount of the loan. The intermediate results indicators (outstanding bonds issued, number of non-banks accessing the dedicated refinancing window, implementation of regional guarantee product for housing loans) will be monitored by CRRH. The indicators on the execution of Component 3 will be provided by the WAEMU Commission. All indicators will be included in the financial reports.

### Regional Approach

54. **The project design has considered a number of approaches towards ensuring that the benefits are evenly distributed among all countries of the region.** The purpose was to avoid the capture of the IDA credit by larger players without an even distribution of benefits across the region. Various structures were considered for allocating the funds to ensure an even distribution across all eight WAEMU member countries, based on population or economic size. On reflection, however, it was felt that any quota mechanism has the potential to distort CRRH’s current market mechanisms.
55. **The proposed solution is to rely on CRRH’s existing mechanisms to ensure a fair and efficient distribution of the funds across the region.** CRRH already faces the issue of regional allocation every time it issues a bond and has to decide how to allocate those funds. Its single obligor limit is 20 percent of capital. The analysis of the current portfolio shows a relatively balanced distribution of funds except for Guinea Bissau whose banks have been refinanced through a Cote d’Ivoire subsidiary. It is in CRRH’s own interest to ensure a balanced distribution of funds as its remit is to best serve the interest of all its members. Its management board and shareholders represent the eight countries and provide an



additional check preventing CRRH from favoring one lender or country over another. CRRH has adopted a policy to ensure a fair distribution of concessional financing under the KfW credit line, which will be used in the IDA project as well. Any bank applying to concessional resources will need preferably to have previously tapped the commercial window, and the total refinancing amount for a single bank will be capped. The project supervision team will closely follow the implementation of this policy.



### ANNEX 3: IMPLEMENTATION SUPPORT PLAN

COUNTRY: Western Africa  
WAEMU Affordable Housing Finance

#### Strategy and Approach for Implementation Support

1. **Fiduciary and execution risks have been identified and mitigation measures planned in project design.** The implementation of Component 3 of the project by the WAEMU Commission carries execution risks, but this is mitigated by the implementation of Components 4 and 5 by CRRH. CRRH lacks familiarity with IDA's financial management and disbursement procedures, which would be partially addressed by capacity building sessions during project implementation. Field presence of a financial management specialist to deliver such training is critical, as well as the presence of a procurement specialist in Ouagadougou to assist the WAEMU Commission with the procurement processes under Component 3 and a procurement specialist in Lome/Cotonou to assist CRRH on the procurement processes under Components 4 and 5.
2. **The implementation of Component 2 carries execution risks as it is untested.** Significant legal and financial work is required prior to the specific window for non-bank financial institutions being operational, which will be supported by Component 4 of the technical assistance. Support from an experienced consultant is expected to be required during the first two years of the project to ensure a smooth implementation of the housing refinancing window for non-banks. This consultant will also review the feasibility study and design of Component 5 to ensure that the product is in line with good international practices.
3. **Regarding environmental and social safeguards, the project is categorized FI-2 reflecting moderate risk.** The component 4 of the technical assistance is expected to support CRRH and participating institutions in enhancing processes and capacity for environmental and social screening as it relates to mortgage lending.



## Implementation Support Plan and Resource Requirements

Activities	Frequency
<b>Component 2 and 5 -experienced consultant</b>	<b>During the first 2 years</b>
To support implementation of component 2	
To review the feasibility study and design of guarantee product	
<b>Procurement</b>	
<b>On site visits</b>	
Review of procurement systems and transactions	Once per year (Implementation Support Mission)
<b>Disbursement</b>	
<b>Capacity building support</b>	
Disbursement training sessions	Before effectiveness and as and when needed
<b>FM Activity</b>	
<b>Desk reviews</b>	
Interim financial reports review	Bi-annually
Audit report review of the project	Annually
Review of other relevant information such as interim internal control systems reports.	Continuous as they become available
<b>On site visits</b>	
Review of overall operation of the FM system	Once per year (Implementation Support Mission)
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit and other reports	As needed
Transaction reviews (if needed)	As needed
<b>Capacity building support</b>	
FM training sessions	During implementation and as and when needed.



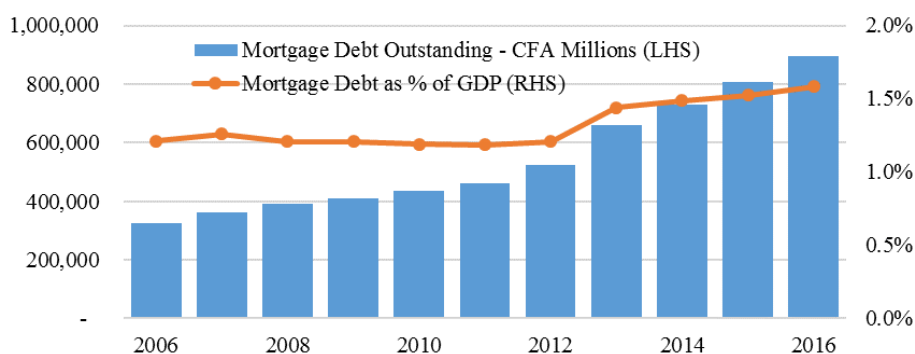


## ANNEX 4: ECONOMIC AND FINANCIAL ANALYSIS

### A. WAEMU Mortgage Market

1. **The starting point for the financial and economic analysis should be an understanding of the current market size and reach of housing finance in the WAEMU region.** Armed with this information it is then possible to better assess how the project will reach the PDO, i.e. the expansion of access to housing finance for households with low and informal incomes in WAEMU countries. However, market data is lacking so estimates on market size were constructed using available information. This shows that as at the end of 2016, mortgage debt outstanding amounted to FCFA 900 billion (US\$1.5 billion)<sup>13</sup>. This is equivalent to a mortgage debt to GDP ratio of 1.58 per cent across the region which has risen steadily over past few years implying the mortgage market is growing at a faster rate than GDP (see Figure 1).

**Figure 1- WAEMU Mortgage Market - 2006-2016**



Source: BCEAO (2014), World Bank calculations

2. **The above numbers translate into around 50,000 loans outstanding by end 2016, with an annual new production level of around 12,000 loans per annum.** This is a gross figure and does not account for loans amortizing or being paid back early. Given that the size of the legacy portfolio remains quite modest, new lending should comfortably exceed any reimbursements so that there is net market growth in both volumes and number of loans. The aim of the project is to substantially increase this number and close the gap on the number of new housing units needed every year across the region which amounted to over 800,000 units<sup>14</sup> as at end 2016.

### B. CRRH Financial Analysis

3. **Figure 2 presents a projection of CRRH's bond issuance over the project period, helping to demonstrate the leverage achieved by the IDA funds, as CRRH continues to raise market based resources.** On the assumption that the project period runs from end 2017 to 2022, the overall assets of CRRH will rise from FCFA 167 billion to FCFA 620 billion. The mono-line nature of CRRH's business

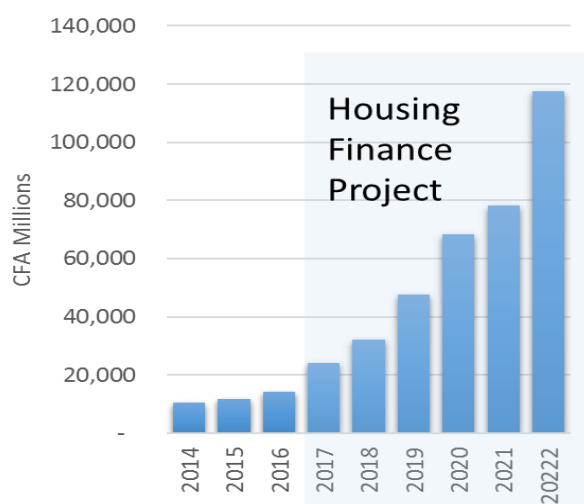
<sup>13</sup> Estimate based on the BCEAO study – *Note d'analyse sur les conditions de financement bancaire de l'habitat dans les pays de l'UEMOA*, October 2014. The study identified 15,000 new mortgage loans in 2013.

<sup>14</sup> Calculation based on UN Populations Data for Urban and rural populations projecting out to 2050.



model means that the entire growth is attributable to an increase in refinance activity. This is supported in part by additional capital resources from IDA subordinated debt (Tier 2 Capital), and direct lines of credit from IDA and KfW, but the vast majority of the growth is funded by CRRH raising its own bond financing on the capital markets of the region. The chart below shows the annual issuance levels projected over the project period. These show a four-fold increase in bond debt outstanding from around FCFA 110 billion at end 2017 to FCFA 455 billion by 2022. IDA resources support a rapid but sustainable growth in CRRH's refinance activities.

**Figure 2 – CRRH's annual Bond issuance 2013-2022**



Source: World Bank calculations

4. **Financial projections for CRRH's balance sheet, key ratios and income statement up to 2022, show that CRRH is able to maintain its profitability over the project period and beyond.** CRRH benefits from a number of waivers including exemption from taxes which help it to maintain a low margin on refinance activities. The overall model is also one which is not driven by shareholder returns but by objective of bringing down overall cost of funds. CRRH's internal policy specifically excludes the payment of dividends to shareholders.

#### C. Economic Impact of IDA non-concessional Credit

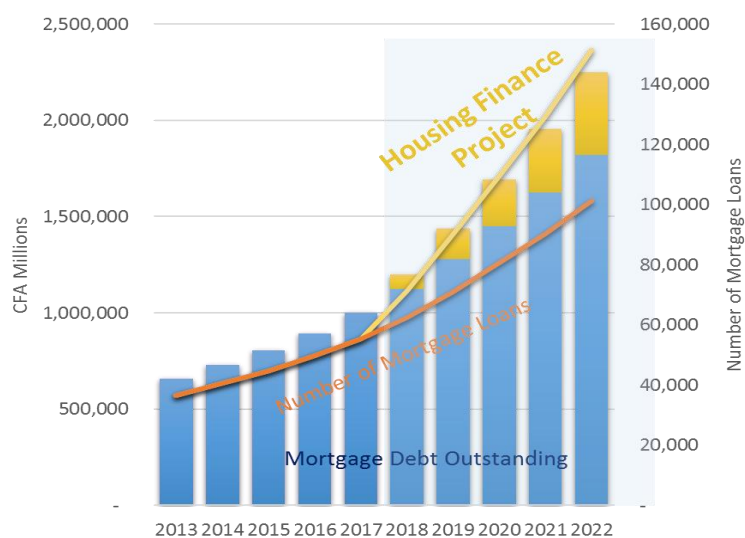
5. **Direct funding through Lines of Credit** - housing loans amounting to a total of FCFA 55,800 million can be originated during project period. On the assumption that the average loan size under the IDA project will be much smaller than current averages and will be around FCFA 8 million, the overall number of new loans originated through direct project funding will amount to around 5,000 new loans. This is a relatively small number which does demonstrate the enormous burden of funding housing needs. It also clearly points to the need to obtain leverage in the project to reach greater numbers of households.
6. **Indirect Impact of IDA non-concessional Credit** – This part of the project is much harder to quantify, but is ultimately the main reason for IDA involvement. The lines of credit, the subordinated debt and all the technical assistance components are there to support overall growth in the market. The project is



intended to help demonstrate the viability of lending to underserved households and support banks in allocating much larger amounts of capital towards housing loans. The financial model uses a premise that the mortgage market will grow more rapidly thanks to the additional support of CRRH providing long term liquidity as well as through the demonstration effect and 'kick start' incentives on the lending to households with modest/irregular incomes. In addition, the subordinated debt provided to CRRH will directly support further bond raising efforts, as well as bring down the cost of the bond financing by strengthening the capital base. All of these combined effects help increase CRRH's leverage ratio on the market substantially. At the mortgage market level, the overall impact is estimated at an additional 22.5 per cent of gross lending per annum.

7. **The expansion of housing finance during the five-year project window will help provide shelter to over 200,000 people.** Figure 3 below shows some of those impacts, working on the basis of a 2022 baseline for the mortgage market of FCFA 1,820 billion, this would rise to FCFA 2,248 billion if the IDA project goes ahead. This represents an additional FCFA 430 billion of lending to 50,401 households, benefiting directly, well over 200,000 people (assuming a conservative household size of four). Given the IDA Credit of US\$130 million, and the overall impact on the mortgage market, the project generates a leverage ratio of 5:1 (one dollar of IDA leverages 5 dollars of private finance).

**Figure 3 - Impact of IDA non-concessional Credit on housing finance market**



Source: World Bank calculations

#### a) Impact on Employment

8. **One of the major impacts of financing more housing is in terms of economic growth and employment creation.** There is a wide literature which has estimated the impact of housing investment on the broader economy with varying degrees of sophistication. Some of the more detailed analyses make use of input-output economic models which all show significant multiplier effects for housing investment exceeding impacts for most other sectors of an economy. The nature of the benefits does vary depending on the level of economic development.



9. **The employment benefits could be deepened if supported by training and import substitution policies to encourage domestic production of construction materials and goods.** The literature<sup>15</sup> finds that low income housing has a lower import component and is more labor intensive than middle or high income housing. Thus, benefits to the economy tend to be inversely proportional to housing cost meaning that low cost housing is more beneficial. Similarly, home improvement entails the sale of building materials, and the employment of low-skilled and medium-skilled workers. It has been shown that in Kenya for example the labor to materials ratio is 45:55 for low-income housing whereas it is 30:70 for high-income housing.<sup>16</sup> In most developing countries, the informal sector is largely responsible for the provision of shelter in low-income houses but, because very little hard data exist, it is difficult to estimate its contribution to the construction sector and to economic development. Research has shown that housing construction in low-income neighborhoods in the developing world is a stimulus to creation of small businesses as much housing construction is done by small firms, largely in the informal sector.<sup>17</sup>
10. **Given the relative costs of labor, it is likely that the employment creation impact in emerging markets will be stronger and more prolonged.** The exact multiplier number varies greatly from one study to another, and depending on assumptions used and how far ones takes indirect multiplier effects. For the purposes of this economic analysis a job multiplier of five is used which is on the conservative side. McKinsey's<sup>18</sup> use a multiplier of eight based on work done in India. Their analysis looks at the impact of jobs in related industries such as cement production, steel production, financial sector, household goods and maintenance, and direct construction.
11. **Based on the assumptions above, the WAEMU housing finance project will help create 250,000 new jobs by end of 2022.** These jobs would be in a range of sectors servicing the new housing and engaged in the construction of further new units. In terms of calculating project benefits, the project is looking at the value added and so would account for notional tax revenue generated by this employment. Simple assumptions are used of 20 per cent tax rate, and an average wage of US\$5,000 per year per worker. In effect the net benefit is US\$1,000 per new worker per year resulting from the project.

#### **b) Economic Rate of Return (ERR)**

12. **The economic analysis of this Project is built as a financial analysis with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the Project.** Under Component 1, the Project will provide financing to the CRRH to refinance small mortgage loans issued by banks. Component 2 will also provide long-term funding for the development of housing finance to households with modest and irregular incomes, via non-bank financial institutions. Using this, the Net Present Value (NPV) and the Economic Rate of Return (ERR) for these components have been calculated. These valuations are constructed through scenario based analyses with sensitivity testing.
13. **There are two main benefits calculated for the project.** (i) An expansion of financial sector activity with

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<sup>15</sup> Erbas and Nothaft (2002)

<sup>16</sup> Syagga, 1989

<sup>17</sup> Tibaijuka, A. K. (2009) Building Prosperity: Housing and Economic Development. London: Earthscan

<sup>18</sup> See Sangeeth Ram, McKinsey, Presentation to the World Bank Global Housing Conference in May 2012



additional housing finance. The sustainability of the sector is based on returns which make allocating capital to affordable housing an attractive use of funds when compared other possible uses. It is assumed that lenders will take a 2 per cent spread above their cost of funding. Of this, half can be attributed to their expenses and risk coverage with half going as increased return on capital. (ii) Tax revenue from employment is a value added of the project, the actual wages are not included as a net benefit as they represent a transfer of funds rather than new wealth creation. The ERR is calculated based on the cost of the Project US\$130 million versus the cash flows from increased financial sector activity and additional tax revenue. A discount rate of 10 per cent is applied to the calculation.

14. **The ERR for the project is a positive 53 per cent which clearly supports the value creation engendered by the project across the WAEMU economies.** Sensitivity analysis shows that the key ratio affecting overall ERR rate, is the leverage of the IDA resources in the mortgage market. The calculations use an assumption that an additional 22.5 percent of mortgage lending will be done each year as a result of the project. Reducing leverage so that annual lending across the market increases by just 10 percent rather than 22.5 percent would yield an ERR of 37 percent. A deeper analysis could also include other benefits not listed here but which have been included in other projects for example the increasing value of homes created under the project, inputted rents, or using a higher multiplier effect for jobs and economic stimulus across the economy.
15. **In addition to the multiplier effect of an expanding housing sector on job creation, indirect benefits associated with an expansion of formal housing have been documented in studies and research around the world.** These are impacts on issues such as crime which drops as homeownership ratio rises, and improved health as households benefit from improved housing conditions; for instance, concrete floors eliminate a potential breeding ground for mosquitoes, and quality homes improves education attainment as children have better facilities for doing their homework. Lastly, a key benefit is the enforced saving aspect of paying off a mortgage loan. This creates an asset for households which can protect them in their old age, allows wealth to be passed on through inheritance and importantly means that the household has a real stake in its local community.



## ANNEX 5: WAEMU Financial System<sup>19</sup>

1. **The formal financial system is underdeveloped and the banking system is concentrated in two or three commercial banks in the majority of the countries.** Financing entrepreneurial activities and housing remain challenging. In the last decade, various countries in the region, particularly Senegal, Benin and Niger, witnessed an increase in the number of commercial banks and microfinance institutions operating.
2. **Conditions in the banking system remain challenging with significant NPL levels and a recent squeeze on liquidity applied by BCEAO as it tightens monetary policy.** The BCEAO took measures to activate the interbank market and enhance monetary transmission mechanisms. In particular, it increased its lending facility rate from 3.5 to 4.5 percent spread, and announced that the recourse to its lending facility will be capped at twice banks' capital starting June 2017. Important steps were also undertaken to promote financial stability. These reforms include the adoption of Basel 2 and 3 capital standards, and the introduction of consolidated supervision. Nonetheless, conditions in the banking sector remain challenging. Credit and concentration risks are important and the ratio of gross NPLs to total loans is still relatively high while the situation of several troubled banks remains unresolved. Only 57 out of 102 banks comply with the minimum share capital of CFA 10 billion at end-June 2016.
3. **The microfinance sector is developing in all WAEMU member countries.** Over the period 2001-2011, savings and loans outstanding more than quadrupled - with average annual growth rates of 16 percent and 18 percent respectively. In 2012, non-bank financial institutions (SFD) were used by 17 million people, twice as much as the population served by the banking system. The number of microfinance institutions has increased from 100 in 1993 to more than 700 at present, with more than 4,600 points of service.
4. **Progress in financial inclusion is encouraging.** For instance, mobile financial inclusion varies from 40 percent to 60 percent across countries in WAEMU. BCEAO continues to aim at greater financial inclusion by promoting a conducive environment and establishing a regional framework consistent with national frameworks. It monitors risks associated with weaknesses or failure of electronic money institutions. Reforms are ongoing to improve the institutional structure of microfinance supervision and an action plan is being designed to enhance the sector's profitability.
5. **Regional credit enforcement legislation is in place across the region but its application is still weak in many countries, leaving banks with risk in the credit process.** OHADA countries adopted in 1998 the Uniform Act organizing simplified recovery procedures and enforcement procedures. Through this Uniform Act, legislators enshrined the right to enforcement, using a variety of recovery mechanisms to ensure the recovery of his claim. The effective application of the Uniform Act faces a number of obstacles related to the efficient functioning of judicial systems. An important revision was adopted in 2011 which introduced extra-judicial **enforcement** procedures. However, housing credits remained excluded from the reform, and the implementation of mortgage security in this area remains hampered by the length of the delays inherent in the functioning of the courts, and the use of frivolous appeal

<sup>19</sup> Source: AHI, Etat des Lieux du Logement Abordable dans l'UEMOA, 2016; IMF Country Report 17/99 WAEMU, April 2017.



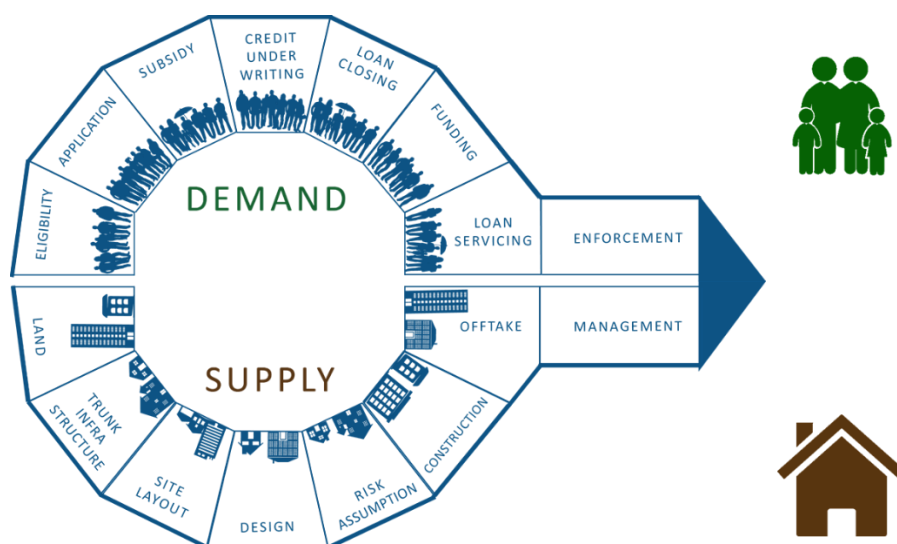
processes.

#### ANNEX 6: WAEMU AFFORDABLE HOUSING FINANCE ANALYTICAL STUDY<sup>20</sup>

1. **Affordable Housing Institute (AHI) prepared a diagnostic study funded by the FIRST Trust Fund covering the current state of housing finance in all eight WAEMU countries.** The study aimed to provide a detailed resource base to serve in planning and preparing the housing finance project. It allowed for the development of baselines for setting project objectives and helped shaped the direction of the project design.
2. **The overall process for conducting the study was extremely inclusive and centered on the establishment of a Steering Committee made up of representatives from each of the member countries who provided detailed technical and strategic input into the final study.** The final study reflected input from numerous stakeholders both from the Steering Committee and from interviews done during field visits in most of the WAEMU countries. The consultation process culminated in a regional workshop organized in Lome in February 2017 which was attended by six Ministers from the region and numerous bankers, developers and others involved in the housing sector. The study together with key conclusions was presented and discussed.
3. **The study explores the housing ecosystem presenting it as two value chains** - supply and demand as shown in diagram below - each consisting of eight interconnected and interdependent stages. If these two value chains function properly from the beginning to the end, they enable, on the one hand, the production of affordable housing and, on the other hand, access to housing finance for households. If one of the steps in the value chain does not work, the entire ecosystem is affected. The detailed study of the two value chains in the WAEMU countries makes it possible to analyze the weaknesses of the sector and to put in place specific interventions to strengthen the mechanisms at the level of supply and demand.

<sup>20</sup> Source: AHI, Etat des Lieux du Logement Abordable dans l'UEMOA, 2016





4. **The study sought to identify key constraints affecting the demand and supply for housing in WAEMU. First, high levels of informality in the economy are a barrier to accessing housing finance for households with low and irregular incomes.** Affordability is a second major constraint on the demand side, with low income levels across the region limiting access to housing finance especially given relatively short loan tenors which make repayment rates high. On the supply side for housing, numerous constraints also exist constraints such as the high cost of building materials, the difficulty of obtaining serviced land, and the financing difficulties encountered by property developers. The study concludes that the main barriers to access to housing are on the demand side, particularly in terms of eligibility, financing and use of land as collateral.
5. **A central part of the study was the preparation of an action plan and roadmap setting out a path for growing the region's housing finance system, in particular for the benefit of those on lower incomes or those currently excluded, earning their income in the informal sector.** The study concluded that expanding the scope of CRRH to underserved households and to non-bank financial institutions was an effective and direct way to improve the affordability of housing finance. The study calculated that by simply extending maturity of mortgage loans from 7 to 20 years, the number of households who could afford a home would more than double. The study considered 5 other actions based on the analysis within the WAEMU zone and the experience in other emerging markets. These five actions were:
- *Guarantee fund* – strong potential in terms of helping manage credit risk associated with underwriting informal sector borrowers
  - *MARS* – a mortgage asset registry system which could operate alongside existing national title registries. This was not deemed as critical at the current development stage where other issues should be prioritized in terms of improving land management systems
  - *Supply side incentives* – while demand side constraints are significant, a holistic solution is required which also addresses the numerous problems on the supply side. However, it is difficult to ensure that supply subsidies benefit effectively the targeted households.





- *Saving for housing plan* – these are seen as having great value in terms of providing a source of longer term funding and a risk management tool as borrowers build up their equity contribution when buying a property, as well as demonstrating repayment capacity.
- *Interest rate buy down subsidy* – this was highlighted as potential method for expanding access to those on lower incomes. This could come later, once the primary mortgage market has grown and is more established. It also requires a fiscal commitment which may not be possible for all states at present.



## ANNEX 7: Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH-UEMOA)

1. **CRRH is the regional public-private mortgage refinancing liquidity facility which started to operate in 2012.** Its mandate is to expand the availability of housing finance, by providing long-term loans to its shareholder banks. It is supervised by the BCEAO, and enjoys the highest credit rating in the region (AA). Its shareholders include public development finance institutions with a 45 percent stake, led by BOAD (with 18 percent of capital) and the IFC (15 percent), and 54 banks with a 55 percent stake.
2. **CRRH has a low risk and tested business model.** It issues long-term bonds in the regional capital market and on-lends the proceeds to its members, allowing them to increase their mortgage lending with a longer maturity and at a lower interest rate, hence improving the affordability of housing finance. The loans to the banks are secured by mortgage loans, which must meet strict eligibility criteria (such as life insurance for the borrower, revenues domiciliation, and cap on the income that must be used to make the monthly payments). They also must be over collateralized so that they represent at least 120 percent of the loans extended by CRRH. This means that to benefit from FCFA 1 billion of refinancing, a bank has to pledge FCFA 1.2 billion of mortgage portfolios. CRRH realizes regular on-site inspections in the banks on the collateral to ensure the loans respect the eligibility criteria.
3. **CRRH has a strong governance structure.** The Board has two committees for audit and credit. To be eligible for mortgage refinancing, a bank needs to be vetted by CRRH and its credit committee. CRRH performs an economic and financial analysis on the bank which considers the compliance with prudential requirements. CRRH has in place a detailed manual of policies and procedures approved by its Board, which describes the eligibility conditions of banks and loans to CRRH refinancing. In application of prudential requirements, any refinancing to a bank which is represented at the Board must be approved by all the members of the credit committee (unanimous consent).
4. **Since 2012, CRRH has refinanced about US\$186 million equivalent of mortgage loans in the region for about 4800 mortgages.** The average refinancing loan size is FCFA 23 million or US\$40,000. However, the mortgages refinanced by CRRH are a tiny fraction in number of the projected social housing construction target by each country which together total 280,000 units. This shows the scope for scaling up CRRH's intervention.
5. **CRRH has issued six bonds in the regional capital market and raised a total cumulative amount of US\$186 million.** CRRH has been able to issue bonds at rates lower than sovereign issues of the WAEMU countries. But it has been struggling to extend the tenor of its financing up to 10 years. With these issues, CRRH is deepening the market and helping construct a yield curve in the WAEMU market.

Bond issuances	Coupon	Maturity	Amount, FCFA bn
2012	6.10%	10 years	12.5
2012	6.10%	12 years	19.2
2013	6.00%	10 years	20.2
2014	6.10%	10 years	15.5
2015	5.85%	10 years	18.3
2016	5.85%	10 years	21.3
TOTAL			107



*Source: CRRH. Exchange rate FCFA/USD= 575.*