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

Appraisal Stage | Date Prepared/Updated: June 5-2017 | Report No: 116305

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Western Africa	P161658	WAEMU Affordable Housing Finance	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	6 June 2017	28-Sep-2017	Finance & Markets
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	BOAD, WAEMU Commission	CRRH	

Proposed Development Objective(s)

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

Components

Small mortgage loans refinancing via banks
Refinancing window for non-bank financial institutions
Affordable housing policies technical assistance
Technical assistance for the non bank refinancing window
Design of regional guarantee product

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	130.00
IDA Grant	25.00
Total Project Cost	**155.00**

Environmental Assessment Category	Concept Review Decision
FI-2-Financial Intermediary	

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

Yes

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **The West Africa 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 (ECOWAS).

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 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 occur 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 undergone 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 estimated at 3.5 million units. Every year, 800,000 new housing units would be needed to solely address the shortage. It is set to increase with population and urbanization growth rates of above 2.5 percent and 3.5 percent, amongst the highest in the world. About 100 million people will be born in the next 20 years. In Abidjan alone, 40,000 new households add to the city each year. Coping with such sustained pace increases the risk of land price appreciation and slum development**.**

Sectoral and Institutional Context

5. **WAEMU banks only issue 15,000 new mortgage loans per year**. 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 maturities up to 5 years, and given the risks they favor salaried workers.

6. **Short loan maturities constrain the affordability of housing finance**. 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 mortgage maturity is about 7 years which limits affordability despite low interest rates by sub-Saharan standards (7-9 percent). Thus, the vast majority of households build incrementally over 10 years using their savings or various micro-loans.

7. **In recent years, the region has taken steps to address the challenge**. 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 facilitated in 2011 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. 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.

8. **The regional regulatory and institutional set-up for finance allows 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 2/3, consolidated supervision, tightening of single exposure limit); they 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. Proposed Development Objective(s)

Development Objective(s) (From PAD)

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

Key Results

9. **The target beneficiaries will be the underserved households in the 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 cheapest available formal housing costing between FCFA 7-11 million and mortgage loans at an average interest rate of 8 percent for 7 years, minimum annual incomes of between US$ 6500-10,000 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 to the households with incomes lower than this level and 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$ 24,000) and FCFA 10 million for non-banks (US$ 16,000) will be used to target these beneficiaries which 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[1] so the project's target will incentivize banks to reach down the income distribution.

10. **The PDO result indicators will be**: a) Number of mortgages issued by all banks in WAEMU per year to assess the catalytic impact of the project on the annual production of mortgages (flow); b) Number of housing loans issued by banks and non-bank financial institutions below FCFA 15 million refinanced by CRRH (cumulative), to assess the impact of the project on the target population.

D. Project Description

11. **The project will have a financing component (IDA Scale-Up credit to the West Africa Development Bank -BOAD) and a technical assistance component (regional IDA grant to WAEMU Commission).** BOAD will on-lend IDA proceeds to CRRH to provide long-term loans to banks and financial institutions 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.

12. **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 mortgage loans will have to meet the following criteria: loans below FCFA 15 million (US$ 24,000) at origination; beneficiaries do not have an existing mortgage loan; the property meets CRRH's existing requirements (clear title, insurance). With the IDA loan, 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

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

investing in risk management and underwriting systems; subsequent refinancing 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**. Currently microfinance and cooperative institutions are not eligible to CRRH's refinancing, while they are subject to more stringent long-term liquidity requirements than banks. They are also serving the informal sector, and households with low incomes. The loan limit will be FCFA 10 million (US$ 16,000) 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.

13. **The technical assistance will be financed by a regional grant to the WAEMU 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 centre 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 address constraints on access to secured and serviced land with feasibility studies on pilot instruments (on urban regulations, land banks, or land titling procedures). This component will leverage on the analytical work implemented 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; amending CRRH's rules of intervention which allow access only to banks members of CRRH; 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, the 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 scheme 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.

E. Implementation

Institutional and Implementation Arrangements

14. **The project will have two regional implementing agencies.** The 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 in 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.

15. **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 WAEMU Commission will detail the implementation modalities for components 4 and 5. IDA will sign two project agreements with CRRH, under the credit and the grant.

16. **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 tranches of US$ 20 million, once CRRH has issued a bond 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 two disbursements subject to presenting a pipeline of requests to refinance eligible loan portfolios. The components under the regional IDA grant will be transaction-based.

17. **The project is expected to include retroactive financing for the initial DLI**. Retroactive payments (up to 20 percent of the credit amount) 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. The tentative signing date is September 2017, and hence the starting date for inclusion of retroactive expenses is expected to be September 2016.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

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

CRRH is a regional mortgage refinancing company covering the WAEMU region (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo). The company is headquartered in Lome, Togo. The Sponsor of CRRH-UEMOA is the West African Development Bank ("BOAD"). BOAD is a regional development bank of WAEMU countries, headquartered in Lome, Togo. As of mid-2017, CRRH's shareholders include institutional investors for 45% (BOAD, the ECOWAS Bank for Investment & Development, Shelter Afrique and IFC) and 54 WAEMU commercial banks with 55% ownership.

Financing under the project, provided by CRRH through refinancing of existing lending portfolios of Participating Financial Institution (PFIs), is targeted to underserved households and is expected to be provided for the following types of end use: (i) mortgages for existing housing; (ii) home improvement loans; (iii) loans for incremental housing construction. The intention of the project through component 2 (credit line to non-bank financial institutions) is to reach out to borrowers in the informal sector who would be normally excluded from the banking system. 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 cheapest available formal housing costing between FCFA 7-11 million and mortgage loans at an average interest rate of 8% for a typical 7 years, minimum annual incomes of between US$ 6500-10,000 are needed to access formal housing finance. The project aims to expand access to the households with incomes lower than this level and irregular incomes, who are excluded from formal bank financing.

Since its establishment in 2012, CRRH has refinanced more than USD 180 million equivalent of mortgage loans in the region for about 4800 mortgages with an average loan size of CFA 23 million (around USD 37,000) at origination. The mortgage portfolios have to 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 have to be over collateralized so that collateral value amount to at least 120 percent of the loans extended by the CRRH.

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

The project is categorized as **FI-2** in accordance with OP4.03. This categorization is based on the review of the prospective portfolio that would be presented to CRRH by PFIs for refinancing. Lending components 1 and 2 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 / guaranteed by mortgage portfolios where they were originated for properties constructed in a way that poses E&S risks that may translate into either credit or reputational risks to financiers and CRRH.

G Environmental and Social Specialists on the Team

1. Alexandra C. Bezeredi, Lead Social Development Specialist (GSU01)
2. Ekaterina Grigoryeva (GEN03)

POLICIES THAT APPLY

E&S Policies	Triggered?	Explanation (Optional)
OP4.01 – Environmental Assessment	NO	Components 3, 4, and 5 involve analytical studies, setting up information systems, dissemination of good practices, and capacity building, and are not expected to have E&S risks and impacts, thus no safeguard policies are triggered.
OP/BP 4.03 – World Bank Performance Standards for Private Sector Activities	YES	OP/BP 4.03, and more specifically, provisions related to private sector activities involving Financial Intermediaries, will be applied to the project. **<u>OP/BP 4.03 applicable E&S requirements for financing provided under the project</u>** Given the nature of the project and the financial products involved in CRRH refinancing (retail/ individual housing finance), applicable E&S requirements under OP/BP 4.03 will be as follows: (i) Compliance with applicable national and local laws and regulations, as required by para. 17(b) of BP 4.03. In the case of housing finance, these may include national and local laws, municipal by-laws and other provision regulating housing development and certification by relevant authorities (e.g. building safety); waste management; Life and fire safety; access to basic services such as water and sanitation. (ii) Exclusion list for mortgage/ housing loans not eligible for refinancing based on associated environmental and social risk and impacts.[2] Exclusion List is as follows: 1. Real estate construction deemed illegal or non-compliant according to applicable national and local laws and regulations.[1] 2. Properties or land associated with illegal forced evictions of previous owners or occupants.[2] 3. Properties built on land from which government agencies or builders have removed / involuntarily resettled local communities, including squatters or encroachers, without proper compensation.[3] 4. Properties involving outstanding land disputes. 5. Properties built in locations and / or in a manner that involves significant degradation or conversion of critical habitats[4] and/or legally protected areas.[5] 6. Properties built in locations and / or in a manner that involves significant adverse impacts on critical cultural heritage.[6,7] **Footnotes**

[2] While the eight World Bank Performance Standards will not be applicable to this project, their content and scope of coverage of E&S issues have been drawn upon to identify and develop solutions for managing E&S risks that are specifically tailored for mortgage/ housing finance (i.e. exclusion list as described above). This will include relevant provisions of the WBG Environment, Health, and Safety (EHS) Guidelines.

		1. Examples include unauthorized construction; housing construction in zones not designated as residential; encroachment on public / government land or private land etc. 2. Permanent or temporary removal against their will of individuals, families and/or communities from the homes and/or land which they occupy, without the provision of, and access to, appropriate forms of legal or other protection. Prohibition on forced evictions does not, however, apply to evictions carried out by force in accordance with the law and in conformity with the provisions of the International Covenants on Human Rights. This criteria will only apply where such evictions took place specifically in anticipation or preparation for the construction of housing for which primary mortgages had been subsequently originated by PFIs. 3. Resettlement activities should follow the process through which adverse social and economic impacts are minimized through (i) providing compensation for loss of assets at replacement cost defined as the market value of the assets plus transaction costs and (ii) ensuring that resettlement activities are implemented with appropriate disclosure of information, consultation, and the informed participation of those affected. This criteria will only apply to such resettlement / displacement that took place specifically in anticipation or preparation for the construction of housing for which primary mortgages had been subsequently originated by PFIs. 4. Critical habitat is a subset of both natural and modified habitat that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and /or congregatory species; areas with unique assemblages of species or which are associated with key evolutionary processes. Primary Forests or forests of High Conservation Value (HCV) shall be considered Critical Habitats. HCV areas do not directly correspond with definitions for modified, natural and critical habitat. The HCV Resource Network, an internationally-recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. https://www.hcvnetwork.org/ 5. This criteria will only apply where such degradation or conversion took place specifically in anticipation or preparation for the construction of housing for which primary mortgages had been subsequently originated by PFIs and/or are likely to occur or continue post-construction. 6. Critical cultural heritage consists of one or both of the following types of cultural heritage: (i) the internationally recognized heritage of communities who use, or have used within living memory the cultural heritage for long-standing cultural purposes; or (ii) legally protected cultural heritage areas, including those proposed by host governments for such designation. 7. This criteria will only apply where such impacts took place specifically in anticipation or preparation for the construction of housing for which primary mortgages had been subsequently originated by PFIs and/or are likely to occur or continue post-construction. **Applicability of Performance Standards provisions to the ESMS** ESMS will incorporate, as appropriate for the project circumstances, relevant principles and elements of an ESMS described in Performance Standard 1 (PS1) on Assessment and Management of Environmental and Social Risks and Impacts, as described in the sections above. In addition, financial institutions will manage the working conditions of their own workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions, as required by para. 17(b) of BP 4.03.
Projects on International Waterways OP/BP 7.50	NO	If issues covered by this policy are identified in activities to be financed under the project components 1 or 2, which is unlikely, such activities will be excluded. Components 3, 4, and 5 are not expected to have such impacts.
Projects in Disputed Areas OP/BP 7.60	NO	As above

KEY E&S ISSUES AND THEIR MANAGEMENT

A Summary of Key E&S Issues

1. Describe any E&S issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The following important characteristic relevant to environmental or social (E&S) risk analysis are taken into consideration. If not managed properly, these are likely to have adverse impacts on credit and reputational risk for the PFI and to a lesser extent CRRH[3]. This is primarily associated with (i) the quality of the collateral (properties that are collateralized for loans to be refinanced by CRRH) and (ii) the ability of the mortgage borrowers to repay the loans, as detailed below. Therefore, screening for these factors can help reduce such risk exposure and, ultimately benefit the Borrower, CRRH, and the PFIs.

(i) **Location of the housing to be refinanced.** The locations are expected to be predominantly in urban areas that can be often densely populated, including vulnerable and /or historically underserved traditional local communities.[4] Significant locational characteristics may include sites in poorly managed urban areas with limited or no basic amenities and services such as water supply and sanitation, leading to health risks and impacts for end borrowers and thus potentially affecting their ability to repay loans. Risks should also be minimized by avoiding locations which are prone to disasters and/or cause adverse impact on natural environment and/or human health (e.g. locations near waste dump sites, high tension cables, canals etc.). Such locations have a potential to reduce value of the properties. Additionally, locations that impacts critical habitats and critical cultural property, where such impacts took place specifically in anticipation of real estate construction, should be avoided. The project intends to support ongoing large scale public social housing programs, for which such risks are generally managed.

(ii) **Resettlement/ displacement**. It is not envisioned that resettlement/ displacement issues will arise within the direct influence of the project. Loans would only be provided to people with evidence of tenure (right to occupy their dwellings) longer than the loan repayment period. However, the risks of originating and refinancing mortgages for properties built on land from which government agencies or developers may have removed vulnerable communities, squatters or encroachers without proper compensation should be managed. This consideration would only apply to such resettlement / displacement, including in ultimate cases[5] the risk of illegal forced evictions that may have taken place specifically in anticipation or preparation for the housing construction activities.

(iii) **Health and safety considerations linked to improper construction techniques, use of hazardous materials.** This category of risk has two distinct aspects based on the project structure and objectives: (1) Structural foundations, health, life and fire safety of the physical dwelling that is already built prior to the time mortgages are refinanced by CRRH. This should be of concern to CRRH and PFIs as it affects both quality of properties financed and personal health and safety of end borrowers. Compliance with national building codes/ regulations, including those for construction labor, can be reasonably relied upon to manage these risks for formal housing[6] (2) Loans for incremental construction/ home improvements, especially for informal housing would require more attention for screening of these risks and their mitigation on the part of CRRH and PFIs (since any certification/ permitting for informal housing construction is not normally under the purview of the government and PFIs and CRRH have some exposure to risks associated with construction activities they finance/ refinance).

(iv) **Household activities that may pose life and fire safety (LFS) risks.** Household activities of end borrowers, such as those related to livelihood earning, may pose risk in terms of fire safety and/or health hazards that may present credit risk by putting the collateral at risk Examples can include use of hazardous fuels and chemicals, waste management facilities at the property, including treatment, storage, disposal, and recycling. This factor cannot be checked ex-ante by the financial institutions so in practice financial institutions would require borrowers that they would not undertake such activities.

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[3] In line with the project structure, the mortgage lender retains the loans on its balance sheet and any loan which is no longer performing has to be replaced with a performing loan. Thus, credit risk is predominantly borne by the PFIs.

[4] Vulnerable and / or historically underserved traditional local communities refers to those communities that may be most marginalized in the country context and lack access to resources and public services.

5 Based on the review of relevant legislation in WAEMU countries, such risk is relatively low as compared to many other countries (e.g. Nigeria).

[6] It should be noted that in some countries, national codes and their enforcement can be insufficiently strong. To that extent, a certification scheme for developers is being considered under Component 3 of the project as a long-term solution. However, until such long-term solutions are developed and implemented, reliance of national regulations in this area will be the primary method to ensure such risks are managed.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

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 / guaranteed by mortgage portfolios where they were originated for properties constructed in a way that poses E&S risks that may translate into either credit or reputational risks to financiers and CRRH.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts:

The project's core approach to mitigation of E&S risks and impacts will be founded on the principles of gradual capacity strengthening of PFIs and will consist of a combination of (i) applying clearly defined E&S requirements to identifying and managing specific risks and impacts and (ii) excluding certain activities representing negative E&S risks and impacts from CRRH's refinancing based on a well-defined Exclusion List. There will be dedicated capacity building budget resources to help CRRH and PFIs build the required capacity. Therefore, the key alternative to help minimize E&S risks and impacts is to ensure no financing is provided to support certain activities where E&S risks have been determined to be unacceptable.

4. Describe measures taken by the borrower to address E&S policy issues. Provide an assessment of borrower capacity to plan and implement the measures described:

Per the requirements of OP/BP 4.03 (Section C), for projects involving Financial Intermediaries, it is required to develop and operate an Environmental and Social Management System (ESMS) that is commensurate with the level of risk in exiting and/or prospective activities. Specifically, WAEMU Affordable Housing Finance ESMS will ensure that adequate measures are in place to screen loans for E&S risks as part of acceptance criteria for the portfolios. CRRH has developed a comprehensive, well-documented E&S risk management approach consisting of five main components:

- E&S policy with clearly specified applicable E&S requirements and standards. The policy specifies the following applicable requirements, consistent with OP/BP4.03: (i) relevant national laws and regulations of the relevant WAEMU country; (ii) application of CRRH Exclusion List of housing loans ineligible for CRRH refinancing based on associated E&S risks and impacts; (iii) CRRH Environmental and Social Screening Criteria, broadly consistent with WB Performance Standards with a focus on key E&S risks and impacts relevant to housing finance in light of their negative impacts on credit and/or reputational risk.
- E&S risk management procedures for screening, identification, assessment, mitigation, monitoring and reporting of E&S risks; the procedures include CRRH's due diligence process with regard to PFI's systems and capacity to implement E&S screening measures in accordance with CRRH's requirements (which would constitute an ESMS as required by OP4.03 at the PFI's level). To that extent, CRRH will integrate compliance with E&S requirements (namely national law and exclusion list) into its overall eligibility criteria for refinancing housing finance loans.
- Reporting requirements for internal and external stakeholders on implementation.
- Roles and responsibilities within the organizational structure for managing and monitoring E&S risks are clearly articulated in CRRH's E&S Policy and Procedures. In particular, CRRH appointed one of its senior staff to be formally responsible for E&S risk management, with a view of integrating it into the overall risk assessment in CRRH's lending activities. CRRH also plans to enhance its internal capacity through engaging a qualified E&S consultant (this would be covered by the World Bank project).
- Management commitment to implement policies and procedures through provision of adequate support and resources for implementation. CRRH's senior management has demonstrated substantial commitment to implementing the E&S policy and procedures promptly and dedicating resources for implementation.

Training / Capacity Building

To ensure that PFIs that submit their portfolios for refinancing are in compliance with the E&S requirements, CRRH will exercise reasonable efforts to support PFIs in meeting CRRH's E&S requirements. To that extent, CRRH will actively participate in the development and rollout of training and capacity building activities for PFIs, in collaboration with the World Bank. In particular, in terms of capacity building at the PFI's level, this will include:

- Since most PFIs already have corporate ESMS in place, but lack systems and capacity for E&S risk management measures specific to lending in the housing finance sector, assistance in enhancing the PFIs' E&S screening procedures and tools;
- Recruitment or, more likely, identification among existing staff, of individuals in each PFI to take up the responsibility of E&S screening in the housing finance sector (those persons would attend the training and ensure that the knowledge and tools are internalized within PFIs and applied by relevant staff during overall credit appraisal of end borrowers, i.e. "Training of Trainer" approach);
- Developing supporting tools for PFIs to further practical implementation of E&S requirements (e.g. an E&S questionnaire and a representation form).

Role of the World Bank

The Bank will assist CRRH and PFIs in fulfilling their respective roles, and in particular: (i) assist and advise on improving and enhancing Environmental and Social Management System during project implementation, including capacity building activities; (ii) review annual consolidated E&S Performance Report submitted by CRRH as required by BP4.03 paragraph 26; (iii) conduct supervision activities at the World Bank's discretion, as commensurate with the ongoing needs of the project.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure, with an emphasis on potentially affected people:

The concept stage and appraisal stage ISDSs are prepared and disclosed by the Bank as the source of summary information on the Bank's findings regarding environmental and social issues. CRRH will disclose its E&S Policy on its website. During the preparation of the E&S Policy, CRRH has also sought inputs and participation in the development of its E&S risk management approach from its shareholder banks, including international development institutions, namely International Finance Corporation and KfW. As PFIs refinanced by CRRH are also its shareholders, CRRH will continue to consult and engage with them throughout the project.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding policy is triggered)

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission to World Bank External Website	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
16-May-2017		N/A

"In country" Disclosure

Comments

As part of its preparation of the project under OP/BP4.03, the Bank assesses E&S risk management systems and plans for capacity building for the wholesale and retail PFIs (in this case CRRH and primary mortgage/housing lenders). Based on this assessment, strengthening of existing systems is recommended and should follow the principle of continuous improvement to ensure that ESMS enables PFIs to meet applicable E&S requirements for the project. For this project, such assessment and recommended improvements are included in the ISDS and Project Appraisal Document (PAD). A detailed assessment and key recommendations for implementation are prepared, the Bank approves the ESMS in an internal memorandum, following which E&S policy and a summary of procedures will be disclosed as per OP/BP4.03 provisions stated below. In line with the overall design of this project, such approval is expected to be completed before project approval by the World Bank. This approach allows the project an opportunity to enhance E&S systems and capacity using the specific project budget allocated for E&S training and capacity building. This is expected to ensure effective implementation and tangible outcomes for E&S risk management.

Overall, in accordance with BP4.03, overall disclosure requirements for projects involving FIs are as follows:

The FI to disclose through the FI's website, if a website exists, and to permit, in writing, the Bank to disclose at the Bank's External Website and local public information center (as may be appropriate, in country), the following elements of the FI's ESMS:

(a) The FI's policy statement which describes specific objectives, metrics, and aspirations that the FI has set with regard to its environmental and social performance;

(b) The FI's procedures for screening and assessing risks and impacts of subprojects or individual transactions;

(c) After Bank review, the summary of the environmental and social assessment that is required for any subproject considered high risk in accordance with the ESMS (this is not expected for this project).

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

OP/BP 4.03 - WB Performance Standards for Private Sector Activities

Does the project require a stand-alone EA (including EMP) report?
No

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
N/A

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
N/A

The World Bank Policy on Disclosure of Information

Have relevant E&S policies documents been sent to the World Bank's External Website?
No

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
No

All E&S Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to E&S policies?
Yes

Have costs related to E&S policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of E&S impacts and measures related to E&S policies?
No

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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