



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

Concept Stage | Date Prepared/Updated: 28-Oct-2016 | Report No: PIDISDSC19971



BASIC INFORMATION

A. Basic Project Data

Country Western Africa	Project ID P161658	Parent Project ID (if any)	Project Name WAEMU Affordable Housing Finance (P161658)
Region AFRICA	Estimated Appraisal Date Mar 29, 2017	Estimated Board Date May 24, 2017	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Sector(s)	Theme(s)	Borrower(s) BOAD
Implementing Agency CRRH			

Financing (in USD Million)

Financing Source	Amount
International Development Association (IDA)	130.00
IDA Grant	20.00
Total Project Cost	150.00

Environmental Assessment Category
FI-3-Financial Intermediary Assessment

Concept Review Decision

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

Yes

Other Decision (as needed)

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B. Introduction and Context

Country Context

- Within Sub-Saharan Africa, the WEAMU region is a rare one to benefit from macroeconomic stability.** The 8 countries share a single currency, the CFA Franc, pegged to the euro, and have benefitted as a result 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 above this level over 2016-2017. Growth was driven by ongoing infrastructure investments, solid private consumption, and favorable agricultural campaigns. Inflation has remained subdued around 1 percent in 2015, reflecting the exchange rate anchor and positive terms of trade developments. Monetary policy has remained accommodative, with the key policy rate unchanged at 2.5 percent since September 2013, and private sector credit grew by nearly 14 percent in 2015.



2. **Yet, 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\$415 in Niger to US\$1,529 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; the Sahelian countries have challenges with large sub-populations that are nomadic or seminomadic. 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 year.
3. **Strong population and urbanization growth put pressure on housing needs.** The housing supply shortage is estimated at about 3.5 million units. It is set to increase with population and urbanization growth rates of respectively above 2.5 percent and 3.5 percent, amongst the highest in the world. This increases the risk of slums.

Sectoral and Institutional Context

1. **Housing finance is under-developed.** Credit to housing is less than 2 percent of GDP in WAEMU versus 15 percent in Morocco and 30 percent in South Africa. In 2013, there were only 15,000 mortgages issued by banks versus estimated annual housing needs of 800,000. Despite low interest rates by regional standards (7-9 percent), affordability is constrained by short loan tenors of about 7 years on average.
2. **Housing finance is hindered by numerous constraints.** Labor informality rates of 75 percent prevent access to a mortgage as banks take the domiciliation of salaries as their main form of security. This is due to weaknesses in the land infrastructure, as very few people have access to a clean title, and foreclosures and repossessions are not common as the judicial system tends to be protective of family housing. As little as 3 percent of land in Senegal is titled, to compare with 30 percent in Ivory Coast and large swathes of land are still subject to customary ownership. Prudential rules require financial institutions to match the maturity of credit with that of funding, but capital markets are too shallow for banks to issue long-term bonds.
3. **In recent years, the region has taken steps to address the challenge.** To ease funding constraints on banks, a regional mortgage refinancing company (Caisse Regionale de Refinancement Hypothécaire 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. Some countries like Côte d'Ivoire have digitalized the land titling agency and reduced the number of procedures to obtain a definite title. Ambitious public programs to build affordable homes have been launched in several countries.
4. **However these initiatives lack scale.** Public programs to increase supply are limited by national budgets and face delays in the provision of primary infrastructure. Despite its good track record, CRRH's expansion is limited by the perceived high risk of affordable housing finance by banks, and the limited absorption capacity of capital markets. This is changing as some banks (Moroccan based) are making housing finance their strategic priority, and institutional investors are developing.
5. **The regional institutional and regulatory set-up for finance allows scaling up housing finance markets.** Financial markets and regulation are regional. Financial institutions are supervised by the Central Bank (BCEAO), and banks are present in most countries. Securities markets count with a regional regulator, a regional exchange, and regional public debt management agency. The WAEMU Council of Ministers issues financial regulation.

Relationship to CPF

1. **The project helps implement the Regional Integration Strategy for Sub-Saharan Africa (RIAS).** It would contribute to the economic integration pillar of the RIAS by strengthening regional financial markets. It would scale up the regional mortgage refinancing agency, supporting the development of regional housing finance and capital markets. 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.
2. **The project is consistent with the Africa Housing Strategy presented to the Board in December 2015.** The strategy highlights the importance of expanding access to housing finance, together with interventions on the urban side and private sector through IFC. The project would include a component to improve housing supply through peer learning activities, and would support private sector as the CRRH is mostly private and IFC is finalizing an equity investment into it.



C. Proposed Development Objective(s)

The development objective is to expand the reach of housing finance across all income groups in WAEMU countries.

Key Results (From PCN)

1. **PDO level indicators:** i) Number of new housing loans issued by banks and microfinance institutions (mortgage and housing loans); ii) number of new housing loans issued by banks and microfinance institutions below FCFA 20 million.
2. **IR Indicators:** i) proportion of mortgage debt outstanding refinanced by CRRH; ii) volume of bonds issued by CRRH.

D. Concept Description

1. **The project design has been prepared at the request of the WAEMU Council of Ministers of Finance and following extensive analytical work.** The Financial Sector Reform and Strengthening Initiative (FIRST) Trust Fund provided a grant to carry out diagnostic work on the current state of the housing finance sector, an inventory of barriers to its development and preparation of a roadmap for developing more affordable housing finance solutions. This work was completed in July 2016, and the proposed project design fully reflects the main recommendations of that work.
2. **The project will address the shortage of long term funding while also making financing more affordable for those on lower incomes.** This will be achieved by scaling up CRRH's current operations and opening them to microfinance and cooperative institutions which cater for low income borrowers and those working in the informal sector. The project will consist of four components with a possible fifth one depending on the outcome of project preparation (see Annexes 2 and 3 for a detailed project description and CRRH track record). These are:
 - **Component 1 - Lower Income Refinancing (USD 80 million)** – a quasi-equity investment into CRRH which would be released in tranches with Disbursement Linked Indicators based on success in reaching lower income households. Supporting CRRH's business will help it to grow and provide the long term financing to the lenders in the region to scale up mortgage lending operations and expand the reach of their businesses. CRRH would be responsible for repaying the loan in line with IDA repayment schedule.
 - **Component 2 – Refinancing Window for Housing Microfinance Institutions (USD 50 million)** – a line of credit to CRRH to help extend long term finance to a select few non-bank financial institutions meeting strict eligibility criteria based on financial soundness and target client population. The objective would be to support housing finance in the form of either mortgages to non-salaried workers, home improvement loans, incremental construction loans and loans secured using alternate forms of collateral. The objective is to reach borrowers currently excluded from accessing formal housing finance.
 - **Component 3 – Housing Supply through technical assistance and peer learning activities (USD 15 million)** – the lack of affordable housing supply is a major impediment and this component aims to provide some support in terms of exchanging best practices and information across the eight WAEMU countries on issues such titling systems or building codes (see Annex 5 for detail).
 - **Component 4 - Technical assistance (USD 5 million)** – A number of issues related to components 1 & 2 will require technical assistance and capacity building. This would be in the form of further studies, or survey work to help support the regional authorities. This will also include capacity building for financial institutions, especially microfinance institutions in component 2 who will likely develop new products for housing.
 - **Component 5 (optional) – Guarantee Fund** – Establishing a partial credit guarantee fund as part of the project could help mitigate the credit risks involved in reaching down the income distribution and to those working in the informal sector. Mortgage credit guarantee facilities are a common part of developed markets as well as in some emerging markets such as Mexico, Romania and South Africa.
3. **IDA credits for components 1 and 2 will need to be supported by grant funding for components 3, 4 and 5.** Components 1 and 2 will be repaid by the project itself as they will be on-lent in the form of long dated loans to CRRH, via the regional development bank (BOAD) which



would be the direct IDA borrower. However, the technical assistance components or the establishment of a guarantee facility would need grant funding as BOAD or CRRH would not be able to carry this cost. The provision of technical assistance is critical in supporting the successful uptake of the financial intermediary loan. The project aims to push boundaries and open up new markets, this will need to be supported with capacity building for lending institutions as well as careful monitoring and evaluation tools.

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

A. 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. CRRH's shareholders include BOAD (13.1%), the ECOWAS Bank for Investment & Development ("EBID")(8.7%), Shelter Afrique (8%) and 49 banks (70.3%).

Financing under the project, provided by CRRH through refinancing of existing lending portfolios of Participating Financial Institution (PFIs), is targeted to low income 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.

Since its establishment in 2012, CRRH has refinanced more than USD 150 million equivalent of mortgage loans in the region for about 4000 mortgages. Average loan size of CFA 17 million (around USD 29,000) for an average period of 10 years. 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 they represent at least 120 percent of the loans extended by the CRRH.

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 CRRH¹. This is primarily associated with (i) the quality of the collateral (properties to be refinanced) and (ii) the ability of the mortgage borrowers to repay loans, 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.² 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, thus leading to deterioration in the value of the collateral.
- (ii) **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 collateral and personal health and safety of end borrowers. Compliance with national building codes/ regulations can be reasonably relied upon to manage these risks for formal housing³ (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).

¹ In line with the project structure, the mortgage lender retains the loans on its balance sheet any loan which is no longer performing has to be replaced with a performing loan. Thus, credit risk is predominantly borne by the PFIs.

² 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.

³ 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.



- (iii) **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.
- (iv) **Resettlement/ displacement.** It is not envisioned that resettlement/ displacement issues will arise within the scope 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, 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 could represent a risk to the project and must be avoided. This consideration would only apply to such resettlement / displacement that took place specifically in anticipation or preparation for the housing construction activities.

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 a Financial Intermediary (FI) project and is categorized as **FI-3** in accordance with OP/BP4.03. This categorization is based on the review of the existing CRRH business activities and an expectation that financial exposure will be to the activities that predominantly have minimal or no adverse environmental or social risks and impacts.

Application of OP/BP4.03 provides an advantage for this project, as OP/BP4.03 offers comparatively more clarity and guidance in these circumstances than safeguards policies. In addition, as IFC provides financing (equity) to CRRH, application of OP/BP 4.03 is expected to result in a more harmonized approach given that OP/BP 4.03 provisions – specifically the approach to environmental and social categorization of FI projects and the use of the “Environmental and Social Management System” concept – are similar to those outlined in IFC’s Policy on Environmental and Social Sustainability. The eight World Bank Performance Standards will not be applicable to this category FI-3 project as per para.18 of BP 4.03.

B. Borrower’s Institutional Capacity

In line with the project structure, the Borrower for this project is BOAD, which is an investor in CRRH. BOAD has put in place an “Environmental Policy and Procedures” (“Politiques & procédures environnementales”) that is a comprehensive framework of environmental and social standards largely based on the World Bank Safeguard policies. Therefore, E&S requirements outlined in this framework are best suited for identification and management of E&S risks and impacts in project finance, and can be only partially drawn upon to develop applicable requirements tailored to the scope, nature, and magnitude of E&S risks in housing finance, as described in section A above. It should be noted that BOAD’s “Environmental Policy and Procedures” outline a broad set of technical E&S standards only and do not represent an Environmental and Social Management System (ESMS) as required by OP/BP 4.03. The ESMS is described below.

Per the requirements of OP/BP 4.03 (Section C), for projects involving Financial Intermediaries, it is required to develop and operate an Environmental and Social Management System (ESMS) that is commensurate with the level of risk in exiting and/or prospective business activities (E&S risks identified for this project are described in section A). 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 collateral. During appraisal, the structure of the ESMS will be further defined in collaboration with the Borrower and key stakeholders, including respective responsibilities of CRRH and PFIs for achieving sound risk management outcomes. The ESMS will, as appropriate for the project circumstances, incorporate relevant principles and elements of an ESMS described in Performance Standard 1 (PS1) on Assessment and Management of Environmental and Social Risks and Impacts.⁴

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.

⁴ While the Performance Standards do not apply to this project, relevant principles and information can be drawn upon to guide the design of the E&S risk management systems and approach.



C. Environmental and Social Specialists on the Team

1. Alexandra C. Bezeredi, Lead Social Development Specialist, GSU01
2. Ekaterina Grigoryeva, Environmental Specialist, GENDR

D. Policies that might apply

Policies	Triggered?	Explanation (Optional)
		<p>OP/BP 4.03, and more specifically, provisions related to private sector activities involving Financial Intermediaries, will be applied to the project.</p> <p><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:</p> <p>(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; LFS; access to basic services such as water and sanitation.</p> <p>(ii) While the eight World Bank Performance Standards will not be applicable to this category FI-3 project, as per para.18 of BP 4.03, their content and scope of coverage of E&S issues will be drawn upon to identify and develop solutions for managing E&S risks that are specifically tailored and appropriate for housing finance (as described in the sections above). This will include relevant provisions of the WBG Environment, Health, and Safety (EHS) Guidelines.</p> <p><u>Applicability of Performance Standards provisions to the ESMS</u> ESMS will incorporate, as appropriate for the project circumstances, relevant principles and elements of an ESMS described in Performance Standard 1 (PS1) on Assessment and Management of Environmental and Social Risks and Impacts, as described in the sections above.</p> <p>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.</p>
OP/BP 4.03 (Performance Standards for Private Sector Activities)	Yes	
Projects on International Waterways OP/BP 7.50	TBD	<p>This policy will not apply as there are no project activities involving international waterways</p>
Projects in Disputed Areas OP/BP 7.60	TBD	<p>Use of this policy will depend on the exact nature of activities to be financed, and their locations. During preparation, efforts will be made to understand these issues, and subsequent triggering of the policy. If required and appropriate, exclusion of sub-projects that are expected to involve such activities will be embedded in the ESMS.</p>

E. Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

March 2017



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

Preparation for the relevant documents: A draft ESMS for the project will be prepared following the appraisal.

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APPROVAL

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