Centre for Affordable Housing Finance in Africa

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CAHF Working Paper Series

LONG TERM FINANCE IN CÔTE D'IVOIRE:
ANALYSIS OF THE HOUSING FINANCE SECTOR.

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OVERVIEW

In the Ivorian housing sector, a common practice is that developers offer rent-for-sale contracts instead of mortgage finance. In a rent-for-sale scheme, the developer retains the ownership of the property until the renter has paid for the full value of the property – rather similar to a leasing arrangement. However, given the short maturity of such transactions, typically four years in Côte d'Ivoire, the monthly payments are prohibitively high for average-income Ivoirians, effectively excluding the majority of the population from using this type of product.

The estimated unfulfilled demand for housing is large and increasing due to population growth, urbanization, and the reduction of the average household size. In addition, the standard of the existing housing stock is low resulting in the need for investment in the replacement or upgrading of the existing housing stock. Many dwellings lack basic amenities. For instance, only 40 percent of dwellings in Abidjan had running water in 2008.[1] Overcrowding is also a widespread phenomenon: one third of housing in Abidjan suffers from overcrowding.[2]

Lending for housing represents a very marginal portion of bank lending activity: around 1% in the last years – with an exceptional drop in 2014:

NEW LENDING FOR HOUSING

	2012	2013	2014	2015	2016
XOF million	16.4	38.1	13.0	41.0	36.4
As a % of total new lending by banks	0.8%	1.4%	0.4%	0.96%	0.83%

Source : BCEAO Rapport sur les conditions de banque dans l'UEMOA en 2016

There are not specific data that show residential mortgages outstanding in the zone[3]. The breaking down of loans outstanding according to their purposes will be eventually done, since the risk weights for capital adequacy calculation for residential mortgage, developer loans or commercial real estate differ in the Basel –based prudential framework.

A way to approximate the size of the market in terms of volume outstanding is to consider medium- and long-term credits extended by banks to individuals[4] :

Amount outstanding of bank medium- and long-term credits to individuals as declared to BCEAO's credit information platform

	2012	2013	2014	2015	2016
XOF million	32.3	37.5	35.3	46.3	50.4
As a % of total	1,9%	2,0%	1,5%	1,6%	1,6%

Source : « Déclarations à la Central des risques » in BCEAO annual reports

These data are only an approximation of the real housing loans outstanding. They include medium term credit, which includes consumer loans – maybe even a majority of the data. But on the other hand, the loans declared to the BCEAO "Centrale des Risques" only include 60% to 65% of the actual portfolios. Therefore, there are two biases of opposite impact that largely offset each other. The data can therefore be deemed as fairly close to the reality. These credits represent 0.2% of GDP, a very low level that has not improved during the period considered.

The longer a financial institution is willing to lend, the more security it will require from its borrowers to mitigate the uncertainty and risk generated by extended time frame. The most common risk is to take immovable assets as collateral, which is done not only in the case of residential or commercial real estate finance, but also of SME finance. The volume of long-term credit supply is therefore dependent upon the efficiency of mortgage rights.

1 ENV 2008, cited by G. Horenfeld.
2 Analyse fine de la demande en logement à Abidjan, World Bank report, December 2016.
3 An overhaul of the reporting system from FIs to BCEAO is under way
4 This statistic is not available for SFDs

THE LEGAL REGIME FOR MORTGAGE SECURITY IS SET OUT BY THE "OHADA" FRAMEWORK

OHADA is the Organization for Harmonization of Business Law in Africa. It was created in 1993 by a treaty between French speaking SSA countries, but membership is open to any State in The African Union –there are 16 Sub Saharan country members today. [5] It is a supra-national law maker who proceeds through "Uniform Acts". When a Uniform Act is adopted and enforced, it is directly applicable and binding, and replaces the domestic law. National governments can however set secondary regulation for its implementation and can be instructed to complement the common framework by the Act itself.

Two Acts defines the framework for secured lending, a critical aspect for LTF.[6]

1. The Uniform Act on security interests

The Act sets the legal framework for all sorts of securities given to creditors, including personal and financial guarantees, pledge on movable assets and in particular credit portfolios, and liens on real estate assets. It was deeply revised, with the diversification of security types and strengthening of the enforcement of many of them. The new version was adopted in December 2010 and came into force in May 2011.

Three new types of security interests have been created: (1) the pledge over financial iinstrument accounts ("*nantissement de compte-titres*"), (2) the assignment of receivables, including future receivables and (3) the fiduciary transfer of cash ("*transfert fiduciaire de sommes d'argent*"). The Act also established centralized public registries for moveable assets ("*Registre du Commerce et du Crédit Mobilier")*. A key provision (art. 192) is to only allow mortgages on property that are duly registered ("immatriculées"). Out -of-court enforcement route has been opened by the reform with the possibility of self- appropriation of certain assets such as pledges on cash or moveable assets, and mortgaged real estate. However, the out of court option is excluded for residential properties - and the foreclosure proceeding is in their case largely under the control of courts.[7]

2. The Uniform Act of 1998 on security enforcement procedures

The Act sets procedures in a precise and prescriptive way. In the case of mortgages, the proceeding, which must be recorded in the land registries, is conducted by bailiffs under the control of judges. Contestations, including in particular cases where the value of the property is significantly higher than the debt, can be raised until five days before the auction in front of the competent court, which decides on their validity – appeals are possible, but on a restricted number of grounds. Forced sales take place through public auctions supervised by the court.

The OHADA framework thus sets strict conditions for the creation and the execution of mortgages, by linking them to the formal registration of properties and the delivery of a formal title – which not only includes freehold rights, but also registered long term leases. But the formal registration of properties is still very partial in Côte d'Ivoire, like in other countries of the sub-region. This is a stringent restriction to the scope of mortgage lending. The registration requirement is of course a way to secure the claim, a preventive step against litigations between creditors, and a prerequisite for the issuance of mortgage-related securities. But it results in practice in limiting the number of collateralizable assets and hence the volume of credit. In some countries where titling also raises issues, ways around the lack of registration are used to extend mortgage loans. In Tunisia, a civil code country with a legal basis similar to the one in WAEMU, the law authorizes mortgaging properties that are not registered and provides for a specific enforcement procedure. In common law countries such as India, the concept of equitable mortgage whereby the sales deed is physically kept by the lender, and an authorization to foreclose granted by the borrower in a specific side letter is a widespread practice. The OHADA framework excludes such flexibility.

This instrument remains nevertheless the preferred type of security of lenders. First it has an impact on recoveries beyond the actual forced sales of assets. Borrowers generally manage to find a way to repay their debt before the completion of the foreclosure process, especially when their homes are at stake. Second, the banking regulation provides strong incentives to secure lending through mortgages. On the accounting side, rules allow to postpone provisioning for 2 years for claims secured by mortgages.[8] On the prudential side, liens on properties result in a 35% risk weight of assets for capital adequacy purposes, instead of 75%.

5 Equatorial Guinea and Guinea Bissau are now members. 3 members are outside the WAEMU or CEMAC sub-regions: RDC, Guinea and Comores.

6 OHADA also developed a common insolvency framework. It was overhauled in 2015, mainly by streamlining procedures, limiting delays and clarifying creditors 'rankings.

7 Such « fast track » procedures exist in numerous countries, including, in SSA, Ethiopia, Nigeria or Rwanda. This solution raises its own issues, in terms of borrowers' protection but also because the contestations debtors often raise in front of courts, thus bringing back the proceeding in a judiciary course.

8 Accounting rules for banks, as amended by a BCEAO's instruction on classified loans (instruction 026 of 2016).

SOURCES OF HOUSING LONG-TERM FINANCE IN CÔTE D'IVOIRE

BANKS

Lending to the housing sector is predominantly funded by bank deposits. As is the case for other medium to long-term lending activities, banks mostly rely on term transformation of deposits to fund mortgage lending. For housing loans, banks have established specific deposit schemes, savings-for- housing accounts, which have a contractual medium-term maturity. Although such schemes reduce the maturity mismatch on the banks' mortgage lending, the maturity of these deposits is still much shorter than the maturity of the banks' lending exposures. As a result of this maturity mismatch the average maturity of housing loans in Côte d'Ivoire is short averaging 7.4 years – similar to other countries in WAEMU.[9] While banks have started to offer longer tenors of around 10 years and up to 25-year loans in certain instances, such loans are provided at fixed interest rates (currently in the range of 8 to 9 percent). The implied interest rate risk limits the banks' willingness to provide longer mortgage loans.[10]

INSURANCE AND PENSION FUNDS

They invest directly in real estate and quoted equity, they do not participate in the corporate bond market or project finance transactions.[11] As yet they do not have the experience, regulatory mandate and risk appetite to make investments in corporate bonds or PPPs. Institutional investors could play an important role in 'taking out' banks who have acted as lenders in the construction phase of infrastructure projects but are unable to provide longer-term finance due to the implied maturity mismatch between their short-term liabilities and the long-term commitments required of infrastructure investments.

A factor that strongly constrained the outreach of pension funds is the dominant share of the population working informally - more than 8 million active individual do not participate in the system. A valuable development, which could have potentially a strong impact, is the opening of CNPS to this population. Informal sector workers could join the system on a voluntary basis according to a reform that has been in preparation for a couple of years. If successful, this move could significantly increase savings volumes collected by the formal sector. Another measure is considered that would contribute to the sale effect: adding a complementary layer of retirement coverage for any CNPS member.

Box 1: CNPS: a major institutional investor in Côte d'Ivoire

CNPS manages 3 types of social coverage: pensions, family allowances and work casualty's insurance, each supported by specific contributions shared by workers and employers – independent workers can however join the work casualty's insurance.

Retirement contributions are structured as follows (end 2017):

- 14% of wages (6.3% paid by employees)
- Wage basis:
  - Floor: 1 minimum Wage[12] i.e. minimum contribution = XOF 8,400
  - Cap: XOF 1,650,000, i.e. currently max contribution = XOF 231,000

A parametric reform took place in 2012 to remedy CNPS structural deficit. Since then, CNPS has been enjoying surpluses at a growing pace – XOF 8 million in 2012, 80 million in 2017.

Its investment capacity has grown accordingly, with now a XOF 250 billion portfolio of financial assets. This portfolio is distributed as follows:

- 30 % (ceiling set by charter): shares, either direct stakes in companies (e.g. Ecobank, Afrinvest), or through investment funds or mutual funds
- 70%: fixed income instruments, out of which:
  - 35% Treasury bonds
  - 35% corporate bonds and term deposits (very likely the main component), 20% est. in the private sector

Investment criteria:

- Risk / return
- Liquidity - relatively secondary criteria, limited feature in the market anyway
  - Development: CNPS prioritize impact investments, first of all in Ivory Coast, then in the WAMU zone. The CEO asserted that the government – 1/3 of the tripartite Board of Directors – does not interfere with investment decisions

CNPS takes stakes in infrastructure projects (especially health, education) on an ad hoc basis provided the project manager is reliable

It also has real estate investments:

- Rental housing stock
- Land banks
- Real estate developments– for instance currently, in a 32-building project

9 About 12 banks offer mortgages, the main lender being BHCI, which was recently sold by the government to a Canadian mortgage institution. Note d'Analyse des Conditions de Financement Bancaire de l'Habitat, BCEAO, 2014.

10 Although intended for exceptional circumstance and not used in practice a safeguard in loan contract provisions allow lenders to adjust their rates, if their cost of funding rises.

11 Country report long term finance Côte d'Ivoire, p 29-30.

12 XOF 60,000 / month since end 2013.

CAPITAL MARKETS

As in many African countries, the stock exchange is small, even though it is a regional exchange servicing the WAEMU region. **Given the overarching dominance of government paper, investment instruments are hardly diversified.** Investment vehicles are nearly mono-type, investors have very few options between which they could choose different risk/ return combinations. Tenors remain relatively short, with the mainly used maturity of government issues being 7 years – even if they can go up to 10 years. The lack of options that could meet the range of investors' needs probably stunts the supply of funds on the capital market and explains

A diversification trend has however taken place in the recent years. Three developments must be stressed in this regard:

- The design of legal frameworks for covered bond and securitization in 2010. These new instruments have not been tested yet, but the existence of a legal regime is a critical first step
- The emergence of a new regional bond issuer to support housing finance: the Caisse Régionale de Refinancement Hypothécaire – CRRH (see below in the housing finance chapter), which issued 7 bonds between 2012 and end 2017
- The opening of an Islamic finance compartments in 2014 with the issuance of Sukuks by several governments.

MICROFINANCE INSTITUTIONS

In recent years there have also been a number of private placements. Among the private placements are Microcred (2016), Alios Finance CI (2017), Dekel Oil (December 2017), and Cofina February 2018 that provides microfinance housing loans to their clientele.

OBSTACLES TO THE MARKET DEVELOPMENT

One of the major constraints resides on the housing supply side. In addition to the issues relating to the registration of property, only 10 of about 25 licensed Ivoirian housing developers are considered to be professional. Many developers, are financially weak. For developers who cannot access bank credit easily, pre-sale contracts are a significant source of finance, but such contracts are not well secured. There have been cases of bankruptcies or stalled projects that have resulted in buyers losing the advance payments they had made to the developer. The reliance on cash-based purchases results in a focus on housing projects in higher-end segments – with prices of at least FCFA 50 to 70 million (US$ 85,000 to 120,000), and only very small developers are active in the affordable segment below FCFA 20 million (US$ 35,000).

Furthermore, due to the dominance of the informal employment, the perimeter of potential borrowers mainstream banks would consider to lend to is limited.[13] There are less than 3 million salary recipients in Côte d'Ivoire (2015), of which only about 600,000 are formally employed.[14] While micro- finance institutions do cater to the informally employed population, the short maturity of their lending, the small overall size of the sector and the poor financial situation of the main MFI networks has prevented them from playing a significant role in long term lending to the housing sector.[15]

Land titling and property registration are another concern too. Within OHADA, the Organization for Harmonization of Business Law in Africa, the framework for secured lending is critical to the development of long-term finance. The Uniform Act on Security Interests (2010) establishes centralized public registries for moveable assets ("*Registre du Commerce et du Crédit Mobilier"*). Another key provision of this Act limits mortgages to properties that are duly registered ("immatriculées") and where the delivery of formal titles has taken place. While ensuring desirable security for mortgages, this provision severely constrains the scope of mortgage lending in Côte d'Ivoire (as in other countries of the sub-region) because only a small share of properties is formally registered.[16] one of the main problems encountered by Ivorian banks is the slow judicial process, especially given the ease with which debtors can raise frivolous legal disputes and adopt the use of delaying tactics.[17]

In addition, cumbersome and costly enforcement procedures affect the effectiveness of liens on real estate. This is a particular challenge in the case of residential

13 There were less than three million salary recipients in Côte d'Ivoire and only about 600 000 of these salary-earners were formally employed, see G. Horenfeld, op cit.
14 Enquête sur le niveau de vies des ménages en Côte d'Ivoire (ENV) 2015.
15 There were less than three million salary recipients in Côte d'Ivoire and only about 600 000 of these salary-earners were formally employed, see G. Horenfeld, op cit.
16 Under OHADA registration, it is required to establish a ranking among mortgage lenders and thereby prevent litigation between different creditors.
17 Despite cultural reluctance to purchase homes whose previous owners have been evicted, mortgages still provide desirable security, as borrowers will endeavor to repay when their homes are at stake, and banks are provided from relief as regards collateralized lending bth in terms of capital adequacy risk-weighing (35 percent for mortgage loan versus 70 percent for unsecured loans) and in terms of provisioning. Fees for establishing title and stamp duties amount to 15 percent of administratively-set property values – even if these values are below market value, they are still considerable.

housing, for which no out-of-court remedies are available. High registration[18] and property transfer charges[19] remain significant deterrents to formal registration of real estate transactions.

Households have limited access to finance a common practice among developers is to offer rent-for-sale contracts instead of mortgages. These contracts are similar to leasing arrangements and act as an exclusion factor, given the short maturity of such transactions, typically only 4 years. With such short maturities, the required monthly payments are unaffordable for most people. Rent-for-sale contracts do not resolve the funding issues faced by developers in gaining access to longer-term funding.

A recurrent problem relates to the unreliability of public records of property ownership. This is particularly acute as regards the subdivision of master titles into titles for individual units in larger apartment buildings. This process takes excessive time and is sometimes delayed indefinitely. Renters may prefer not to switch to ownership to avoid the cost of obtaining titles. This problem should be alleviated as part of the process of computerization of the land registry.

A major constraint to housing development is the lack of funding for land management required to formalize property ownership, build land reserves and develop urban infrastructure. This is required to bring land that hitherto has been used informally by villagers according to traditional customary rights into the formal property rights system. Early intervention in this process is required to prevent speculative appreciation in the value of land targeted for real estate development.

The availability of affordable land remains a major constraint. Since 2011 the government has granted various forms of financial relief to stimulate the supply of land available to developers.[20]

GOVERNMENT INTERVENTIONS

Since January 2016, a greater information exchange and transparency is provided by the launch of the new credit bureau. However, the Ivorian government, to strengthen its housing finance sector, could implement a series of suggestion applicable at financial, regulatory and administrative level. It could:

- Significantly improve the efficiency of the administration of property rights and land administration. The importance of reducing the transaction costs associated with registering land ownership rights cannot be overemphasized.
- Undertake a review of property registration and transfer charges as applied to both movable and immovable assets with a view to significantly reducing these charges.
- Strengthen the judiciary's awareness of the secured lending process. Efficient and timely recourse to real-estate security is critical to the provision of long-term housing finance.
- Build on and further expand the issuance of bonds by the mortgage finance liquidity facility, the *Caisse Régionale de Refinancement Hypothécaire* (CRRH-UEMOA).
- Encourage the mobilization of long-term finance, particularly at the very start of the housing delivery chain. Housing supply, and particularly affordable housing, requires protection against speculative land appreciation and adequate infrastructure.
- Optimize the government 's support to urbanization projects and affordable housing supply. On the supply side the government should consider how best to put to use the value it creates by converting customarily held land into clearly titled land ready to be urbanized.
- Implement a guarantee scheme for informal sector borrowers while making sure that the parameters of the guarantee scheme ensure financial sustainable. A risk-sharing facility can be important in helping to expand access to housing finance to the majority of the population, which does not have access to housing finance, and yet can be creditworthy.
- Make a concerted effort to assemble and disseminate data about long term finance across the financial system.
- Facilitate the process of collecting market data to enable project preparation and development.
- Oblige financial institutions to provide reliable and comprehensive information to the credit bureau on a timely basis.

18 Fees for establishing title and stamp duties amount to 15 percent of administratively-set property values – even if these values are below market value, they are still considerable.

19 Notary fees associated with property transfers range from 6 percent to 11 percent of property values depending on the transaction price.

20 These include reimbursement of VAT, exemption from registration charges, exemption from the tax on interest payments, a reduced corporate income tax on larger development.

FUNDING

Beside the public budget based CDMH, housing loans are mostly funded by bank deposits. Since 2012, a market-base source has become available through the Caisse Régionale de Refinancement Hypothécaire.

Box 2: The WAEMU mortgage refinancing facility CRRH-UEMOA

CRRH- UEMOA was established in 2010, and started operations in 2012, as a specialized financial institution under the sub-reginal banking law and supervised by the central bank BCEAO.

It is primarily designed as a cooperative undertaking between sub-regional banks, its borrowers being also its shareholders[21]: an impressive 54 banks have a 55% stake in its XOF 8.4 billion (US$ 15.5 million) equity base, including the various local subsidiaries of WAEMU based banking groups, Bank of Africa, Atlantic Bank, and Ecobank. CRRH is supported by the sub- regional development bank BOAD, its mains shareholder (18% share) and initial promoter, the ECOWAS Bank for Investment and Development (EBID) Bank as well as, by the IFC, which took a 15% stake in 2017. The regional developer finance entity, Shelter Afrique, also took a minority share in the structure.

CRRH's mandate is to provide mortgage lenders with long term resources raised from the capital market. It issues bonds and on-lend the corresponding proceeds to mortgage lenders. This refinancing activity is secured by 1) taking housing loans portfolios as collateral with an overcollateralization rate of at least 20%; 2) setting quality standards for the loans to be eligible to its support: first lien on fully titled properties, or financial guarantees provided by regulated insurance or entities supervised by BCEAO, conservative assessment of property values; moreover, loans can be collateralized for up to 90% of the underlying property value; and 3), requiring that NPLs be withdrawn from the cover pools and replaced by current loans. CRRH intermediation cost is limited - it charges an upfront 1% fee on refinancing advances.

To circumvent the issue of scarcity of titled properties in the WAEMU countries, and the lack of eligible loans in the existing stocks, it adopted a pragmatic approach. Beside financial support by robust guarantors, it accepting to extend refinancing loans secured by Treasury bonds for up to 50% of their amounts, provided the borrowing banks originates, and brings as security, the required volume of mortgage loans within 2 years.

Status of CRRH bonds

The bonds are carrying a 20% risk weight for capital adequacy calculation when held by banks – in accordance with the 2016 prudential regulation that ties risk weights to the rating of the debtor. The very low risk profile of the institution, which lends to high rated lenders, secured it lending by pledging portfolios with a 20% overcollateralization, as a strong shareholder structure- including its main shareholder, BOAD whose bonds are zero-risk weighted -, and is a monoline business – meaning no competing creditors beside the debt raised to fund secured refinancing operations- is not reflected in this treatment. A lowering of the risk weight to 10%, as in the case for well rated covered bonds in Europe, should be considered by BCEAO.

The servicing of the bonds is secured through the allocation of cash flows received from borrowing banks to a dedicated escrow account held by an independent institution. In addition, shareholders are committed to ensure the servicing in case aa borrowing banks would default.

The bonds enjoy a tax exemption on interest and capital gains, decided in 2012 by the WAMU council of ministers until 2022.

Since 2013, the central bank accepts CRRH bonds for its repo operation. This is a key feature to make CRRH bonds eligible to the Basel III Liquidity Coverage Ratio as a High Quality Liquid Assets eligible to the ratio with a minimal haircut .

21 But shareholders are not necessarily borrowers.

CRH has been proactive from the onset, issuing long maturity bonds as soon as 2012:

- 2012: 2 bonds totalling XOF 28.5 billion of 10- and 12-year maturities, 6.10% yield;
- 2013: XOF 20 billion issue, 10 year, 6%;
- 2014: XOF 15 billion issue, 10 year, 6%;
- 2015: XOF 18.3 billion issue, 10 year, 5.85%;
- 2016: XOF 21 billion, 10 year, 5.85%;
- 2017: XOF 25 billion, 5.95%.

Up to early 2018, it refinanced about 35 banks and issued 7 bonds, with a quite remarkable range of maturities of 10 or 12 years, the only non-government entity to achieve such tenors. It is rated AA by the regional rating agency Bloomfield.

In mid-2017, the refinanced loans outstanding amounted to XOF 126.6 billion (US$ 240 million) and the long-term bonds outstanding to XOF 82 billion.

INTERNAL RESOURCES

Funding long term mortgages by deposits is a clear constraint on the capacity to extend long term loans even if a significant part of deposit bases can be considered as stable. It is also an interest rate risk factor, somewhat mitigated by the contractual clause allowing lenders to adjust rates during the lives of loans depending on the cost of their resources, a provision that is practically never used and would be enforced probably only in an extremely stressed scenario.

Within deposits, one type is dedicated to housing, and has a medium-term contractual maturity: savings-for-housing accounts. All lenders offer such a product, typically yielding a 4.5% interest. The total size of which remains limited despite a relatively high growth (+13% per year 2012-2015), and yet, the volume of savings exceeds the estimated amount of mortgage loans:

Savings-for-housing accounts with banks (XOF Billion)

2012	2013	2014	2015
65.3	71.0	81.2	94.0

Centre for Affordable Housing Finance in Africa

About The Centre for Affordable Housing Finance in Africa (CAHF)

www.housingfinanceafrica.org

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a marketbased approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor