The World Bank
Affordable Housing Finance Project (P165034)

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

Appraisal Stage | Date Prepared/Updated: 17-November-2018 | Report No: 133128
## BASIC INFORMATION

<table>
<thead>
<tr>
<th>Country(ies)</th>
<th>Project Name</th>
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<tbody>
<tr>
<td>Kenya</td>
<td>Kenya Affordable Housing Finance Project</td>
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<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
<th>Environmental Assessment Category</th>
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<tr>
<td>P165034</td>
<td>Investment Project Financing</td>
<td>F2-Financial Intermediary Assessment</td>
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### Financing & Implementation Modalities

- [ ] Multiphase Programmatic Approach (MPA)
- [ ] Series of Projects (SOP)
- [✓] Disbursement-linked Indicators (DLIs)
- [✓] Financial Intermediaries (FI)
- [ ] Project-Based Guarantee
- [ ] Deferred Drawdown
- [ ] Alternate Procurement Arrangements (APA)
- [ ] Contingent Emergency Response Component (CERC)
- [ ] Fragile State(s)
- [ ] Small State(s)
- [ ] Fragile within a non-fragile Country
- [ ] Conflict
- [ ] Responding to Natural or Man-made Disaster

### Expected Approval Date

TBD

### Expected Closing Date

30-Apr-2024

### Bank/IFC Collaboration

Joint Level

Yes

Complementary or Interdependent project requiring active coordination

### Proposed Development Objective(s)

The development objective is to expand access to affordable housing finance to targeted beneficiaries

### Components

<table>
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<th>Component Name</th>
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<tr>
<td>Technical Assistance</td>
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I. STRATEGIC CONTEXT

A. Country Context

1. After multiple headwinds dampened growth in 2017, a nascent rebound in economic activity in Kenya is gaining momentum. Economic growth decelerated to a 5-year low of 4.9 percent in 2017 due to poor rains, slowdown in credit growth to the private sector and election-induced uncertainty. Growth is projected to recover to 5.7 percent in 2018, and steadily rise to 6.0 percent by 2020. The dissipation of political uncertainty and the recovery in the global economy is supporting a rebound in business sentiment. Downside risks include weak private sector credit growth, fiscal slippages, rising trade tensions and sharp increase in oil prices.

2. The Government of Kenya (GoK) has outlined four big priority areas for the next five years (“the Big Four”). These are food security, affordable housing, manufacturing, and universal health coverage. For affordable housing, the GoK expects to deliver 500,000 new decent units by 2022.

3. With limited fiscal space, support from the private sector is needed to reach the Big Four. The government is on course with its fiscal consolidation plan. The fiscal deficit narrowed from 9.1 percent of GDP in 2016/17 to 6.9 percent in 2017/18. As a result, public debt moderated from the rapid rise in previous years, decreasing as a share of GDP from 57.5 percent in June 2017 to 57 percent in June 2018.

4. Poverty incidence in Kenya is below the average in sub-Saharan Africa. Strong growth in the last decade led to a decrease in the national poverty rate from 46.8 percent in 2005/06 to 36.1 percent in 2015/16. Poverty is concentrated in the North East and in rural areas. With Kenya moving to middle-income status, issues of shared prosperity and decent living conditions are becoming more prominent.

B. Sectoral and Institutional Context

5. Kenya’s population is young and urbanizing rapidly, putting strong pressure on housing needs. Three quarters of the population is below 35 and urbanizing at a rate of 3.4 percent per year. Urban centers face a shortage of 200,000 housing units annually and only 50,000 new housing units are being constructed every year. 61 percent of urban households are estimated to live in slums (50 percent in Nigeria, 23 percent in South Africa). This is mostly due to qualitative factors such as overcrowding and access to basic services. In urban centers, 56 percent of households live in one single room, and only 19 percent own their home (Kenya National Bureau of Statistics - KNBS 2018).

6. Urban housing is not affordable. This stems from the cost of financing, the short loan tenors and the high cost of property. Commercial banks have only 26,000 mortgage loans outstanding of an average amount of KES 11 million (US$110,000). The interest rate cap in 2016 coupled with decreasing asset quality (overall non-performing loan ratio of 12 percent) led banks to tighten their credit standards and offer variable rate loans. Financial cooperatives (SACCOs) are estimated to provide almost 90 percent of the total housing finance but they are highly constrained by the short-term nature of their deposit liabilities. Though SACCOs’ interest rates are relatively low at 12 percent, their loans do not generally go beyond 5 years. As a result, most urban households rent, or build incrementally with repeat loans.
7. **High property costs stem from the cost of land and construction, and inefficient property registration.** Although the price of the cheapest newly built house by a private developer was about US$17,000 in 2015, the average value of a 3-bedroom property can reach US$140,000 (HassConsult 2017) as developers have focused on the high-end market. Annual median urban household income is about US$6,000 (using GDP consumption data) which points to affordable house prices of around US$18,000 (three times the income as a rule of thumb). Land and infrastructure cost account for 30 to 40 percent of private developments. Kenya has one of the highest construction costs in Africa due to the import of cement and steel and their associated levies. The lengthy property registration process and constraints on sub-division increase the property cost and are a disincentive for formal financing: the cost of a property is on average 10 percent higher when purchased by a mortgage loan than by cash.

8. **The GoK’s Affordable Housing strategy includes five pillars.** The affordable housing segment of the GoK targets households with monthly incomes below KES 100,000 (US$1,000) and unit prices below KES 3 million (US$30,000); the Project uses the same reference points.

   (i) **Unlocking land for affordable housing supply:** Land with proximity to services (transport, jobs, schools) and infrastructure is a critical enabler to affordable homes. The GoK intends to make serviced land available to private developers and enter into PPP schemes to support the supply of affordable homes on a large scale. It is surveying parcels of public land to assess whether they are properly registered and can be suitable for public-private arrangements and has prioritized 44 locations for large-scale developments.

   (ii) **Providing bulk infrastructure:** The GoK is committed to servicing parcels of land by providing bulk infrastructure (water, sewage, power, access roads) to attract the private sector. It is supporting rapid mass transit systems around key urban areas, starting with Nairobi; and planning to simplify the building code and streamline permit application to support affordable housing supply.

   (iii) **Reducing development cost:** The GoK intends to incentivize large-scale developments to reduce cost as well as the use of alternative building materials and construction techniques. The corporate tax rate of developers who construct at least 100 units per year was lowered to 15 percent in the 2018/19 budget.

   (iv) **Financing:** The GoK has set up the Kenya Mortgage Refinance Company (KMRC), a public-private company that will provide long-term funding to financial institutions to extend loan tenors. KMRC is a wholesale financial institution which will issue bonds in the local capital markets, and with the proceeds, extend long term loans to financial institutions, secured against mortgages. The National Treasury (NT) will own 20 percent of KMRC and the remainder will come from development finance institutions, Kenyan banks and SACCOS. To finance supply, the GoK is creating a National Housing Development Fund to act as an aggregator of demand and support savings.

   (v) **Enabling environment:** The GoK is planning to enable legislation to facilitate and computerize property registration; sectional titling; strategic land acquisition; and prohibit land speculation.

9. **This Project supports the GoK’s strategy on two fronts: expanding affordable housing finance via the provision of long-term funding and strengthening property registration.** It is part of an integrated approach of the World Bank Group (WBG) to support affordable housing, which also include: i) technical assistance to design
PPP type schemes to provide affordable housing in counties, funded by Financing Local Infrastructure and Affordable Housing Advisory Project (603144), which is under a DFID umbrella trust fund, the Kenya Competitiveness Enhancement Program. Work is ongoing with the county government of Nakuru to design a bankable and scalable structure to attract private investors into affordable housing. Other counties are interested in replicating this initiative. ii) Delivery of improved services and urban infrastructure in counties via the Kenya Urban Support Program (P156777). iii) IFC interventions, with a focus on expanding developer finance.

C. Relevance to Higher Level Objectives

10. The Project supports the Maximizing Finance for Development Agenda. KMRC’s long-term funding to financial institutions will incentivize them to provide more long-term loans to their clients. The GoK’s initial contribution of US$10 million into KMRC will catalyze US$12 million of private sector equity. KMRC’s bond issues will mobilize private funds from institutional investors through the capital market, as shown by other mortgage refinance companies. Since inception in 2012, the West Africa Mortgage Refinance Company (CRRH) has issued about US$240 million worth of bonds becoming the largest issuer in the local capital market. Strengthening the foundations for faster and more reliable land transactions through computerization will increase investment into housing and boost the mortgage market.

11. The Project will help boost shared prosperity. It addresses the rapid urbanization visible through slums in main urban centers and will have four types of impact. (i) Increase in access to housing finance: by lengthening loan tenors, the Project could triple the proportion of urban households having access to a mortgage. (ii) Inclusive finance: a distinctive feature of KMRC compared to its peers is to serve microfinance banks and SACCOs, which target low-income borrowers (microfinance banks have 2 million clients with an average deposit of US$57, a proxy for monthly income). KMRC’s long term loans will allow SACCOs and microfinance banks to grow more sustainably, since today their funding relies on short-term deposits. (iii) Economic externalities: investment into affordable housing has a strong multiplier effect across the economy given the number of linked sectors, raw material, construction sector, finished goods or financial services. The Project could help support 128,000 new jobs. Homeownership also prevents vulnerable households from falling into poverty by providing an asset that can be leveraged to obtain credit. (iv) Social externalities: better housing conditions improve health and educational outcomes. In Mexico, the Piso Firme program replacing dirt floor with concrete resulted in a 20 percent reduction of incidence of anemia in children under 6 and higher language scores of 30 percent in toddlers. Studies in the US show that for children in families with incomes less than 150 percent of the federal poverty line, homeownership raises educational attainment, earnings and welfare independence in young adulthood (Yun 2017).

12. The path to expand housing finance down market will be progressive. Financial institutions progressively move to lower income and loan size segments as experience and comfort develops with this product, and digital innovation strengthens the credit assessment of long-term loans for households in the bottom 40 percent. The India Low-Income Housing Finance Project shows that reaching down-market requires time, appropriate underwriting techniques and supportive institutions.

II. PROJECT DESCRIPTION
A. Project Development Objective

PDO Statement
The development objective is to expand access to affordable housing finance to targeted beneficiaries.

For this Project, targeted beneficiaries are the same as per the GoK’s Affordable Housing Strategy, with a property below KES 3 million (US$30,000), which translates into a monthly household income below KES 100,000 (US$ 1,000).

PDO Level Indicators
Number of affordable mortgage/ housing loans refinanced by KMRC
Volume of bonds issued by KMRC

B. Project Components

Figure 1: Project Design

III. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

A. Project location and salient physical characteristics relevant to the E&S risk management analysis (if known)
Affordable Housing Finance Project aims to support primarily demand side of the housing supply chain in Kenya by providing finance and capacity building to a range of financial institutions in order to increase availability of affordable housing and access to affordable housing finance. Main activities and their characteristics relevant to environmental and social (E&S) risk management analysis are as follows:

(1) Component involving Financial Intermediation using commercial lending instruments/ financial products with individual mortgage borrowers as end borrowers (Mortgage / Housing Finance1), i.e. Component 1, a Line of Credit (LoC) designed using a wholesale-retail Financial Intermediation model, with a wholesale FI (Kenya Mortgage Refinance Company, KMRC, that has been newly established) refinancing portfolios originated by

1 Purchase of housing, purchase of land, individual construction of housing, and incremental construction activities will all be eligible.
Primary Mortgage Lenders (PMLs) that will apply for refinancing during project implementation. This financing is designed to help meet long-term financing needs of the market and is expected to be provided for mortgages for purchase of existing housing, purchase of land for housing, and incremental 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) that would then become eligible for mortgage/housing loans. Therefore, characteristic relevant to E&S risk analysis are taken into consideration for this component (details provided in section A below). If not managed properly, these risks are likely to have adverse impacts on credit and reputational risk for the PMLs and KMRC.

(2) Technical assistance component, i.e. Component 2 will involve technical assistance and capacity building that aim to ease supply-side constraints so that commercial mortgage/housing lending is more enabled, and Component 1 has a better chance of success. This component will strengthen the institutional framework for efficient property registration. Even though these activities themselves will not have adverse E&S risk and impacts, they may provide opportunities to raise environmental and social standards across Kenya’s housing finance sector.

Rationale for classification as Category FI-1, FI-2, or FI-3:
The project is a Financial Intermediary (FI) project and is categorized as FI-2 in accordance with OP/BP4.03. This categorization is based on the review of the prospective project activities and an expectation that, in accordance with BP4.03 paragraph 21, potential adverse environmental and social risks or impacts will be few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures. This categorization is based on the nature of the prospective loan portfolios that would be presented to KMRC by PMLs for refinancing. Project Component 1 supports refinancing of eligible primary mortgage loans already originated by PMLs for purposes of acquisition of residential housing by individuals/households. While mortgages/housing loans themselves carry very limited E&S risks, E&S risks arise when refinancing is backed by housing loan portfolios where they were originated for properties constructed in an environmentally and socially unsustainable way that translates into either credit or reputational risks to PMLs, KMRC and the World Bank.

Environmental and Social Specialists on the Team
1. Kimberly Vilar, Senior Social Development Specialist (GSU06)
2. Ekaterina Grigoryeva, Environmental Specialist (GEN07)

POLICIES THAT APPLY

The World Bank environment and social technical standards and management system requirements applied to this project will be governed by the provisions of OP/BP 4.03. The approach will be consistent with the policy provisions for projects involving financial intermediaries (FIs). In line with OP4.03, the approach to implementation of environment and social risk management measures is that of putting in place and continually strengthening a formal Environmental and Social Management System (ESMS). In this project, ESMS will operate at two levels (i) KMRC will have an E&S policy and procedure reflecting its wholesale role and focusing on its E&S requirements and due diligence...
to be performed on Participating Mortgage Lenders (PMLs); (ii) ESMS at the level of PMLs that will integrate systems, processes, and capacity to conduct adequate E&S screening of housing loan portfolios against KMRC’s requirements.

For FIs investments, the requirements for the ESMS are governed by the relevant principles of Performance Standard 1 in relation to such systems. All FIs involved must also manage the working conditions of their workforce in accordance with relevant aspects of Performance Standard 2 on Labor and Working Conditions. However, PSs 3 through 8 would not be applicable to this project as the investment/ lending activities under it do not constitute project or corporate finance, or other type of smaller high-risk transactions where these PSs can be meaningfully applied. Activities under this project can be classified as long-term secured lending for consumer finance in one specific sector (housing) that, however, has relatively high inherent E&S risks and impacts. These risks will therefore be managed using other tools that will incorporate core underlying principles of all PSs but are more suited to this type of financial products. Further explanation of PS applicability is provided below.

<table>
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<th>E&amp;S Policies</th>
<th>Triggered?</th>
<th>Explanation (Optional)</th>
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<tr>
<td>Applicable Performance Standards</td>
<td>Yes/No?</td>
<td>Explanation (Optional)</td>
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</table>
| PS1 (Assessment and Management of Environmental and Social Risks and Impacts) | Yes | PS1 requires all FIs involved in the projects to have an Environmental and Social Management System (ESMS). ESMS shall incorporate, as appropriate for the project circumstances, relevant principles and elements of an ESMS described in PS1, more specifically policies, procedures, institutional capacity and training, management commitment, and reporting. All these elements of the ESMS must ensure that project-specific E&S risks and impacts are adequately addressed. Such a system will include processes and implementation capacity within the multilevel project structure to manage key identified E&S risks and impacts. KMRC and PMLs will play important roles in implementation of the ESMS. Specifically, minimum Applicable E&S Requirements (to be incorporated in financing agreements) will be as follows:

A. Applicable national and local laws and regulations of Kenya.  

B. E&S List of Excluded Activities (loans not eligible for refinancing based on associated environmental and social risk and impacts):
   1. Real estate construction deemed illegal or non-compliant according to Applicable Laws.  
   2. Properties or land associated with illegal forced evictions of previous owners or occupants.  |

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4 IFC Interpretation Note on FIs (used by the World Bank as a source of good practice) ([https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/IN+on+FIs_Revised+April+11+2017.pdf?MOD=AJPERES](https://www.ifc.org/wps/wcm/connect/38d1a68049ddf966af3cbfda80c2ddf3/IN+on+FIs_Revised+April+11+2017.pdf?MOD=AJPERES))

5 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. This may also include an ESIA prepared and duly approved by NEMA and documents prepared in line with the requirements of the National Lands Commission.
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 habitats⁴ 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
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 national law and is conducted in a manner consistent with basic principles of due process, including provision of adequate advance notice, meaningful opportunities to lodge grievances and appeals, and avoidance of the use of unnecessary, disproportionate or excessive force. These criteria will apply where land associated with such evictions was subsequently used for construction of housing developments in which Participating Financial Institutions are seeking to originate mortgages.
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. These criteria will apply where land associated with such resettlement / displacement was subsequently used for construction of housing developments in which Participating Financial Institutions are seeking to originate mortgages.
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. These criteria will apply where land associated with such degradation or conversion was subsequently used for construction of housing developments in which Participating Financial Institutions are seeking to originate mortgages and/or these impacts 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. These criteria will apply where land associated with such impacts was subsequently used for construction of housing developments in which Participating Financial Institutions are seeking to originate mortgages and/or these impacts are likely to occur or continue post-construction.

The ESMS will also incorporate a grievance mechanism that will accept and address complaints and concerns regarding relevant operations in a manner accessible and understandable for affected parties. Grievance mechanism must be required for KMRC in the Financing Agreement and shall be approved by the Bank.

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<tr>
<th>PS2 (Labor and Working Conditions)</th>
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<tr>
<td>PS3 (Resource Efficiency and Pollution Prevention)</td>
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<td>PS4 (Community Health, Safety, and Security)</td>
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<td>PS5 (Land Acquisition and Involuntary Resettlement)</td>
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<td>PS6 (Biodiversity Conservation and Sustainable Management of Living Natural Resources)</td>
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<td>Projects in Disputed Areas OP/BP 7.60</td>
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**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:

Within the context of the project, key types of E&S risks are primarily associated with (i) the quality of the collateral (properties to be refinanced) and (ii) the ability of the mortgage borrowers to repay loans. Therefore, screening for these factors can help reduce such risk exposure and, ultimately benefit KMRC and PMLs. If not managed properly, these are likely to have adverse impacts on credit and reputational risk for the PMLs, KMRC and the World Bank.
Household activities hazardous to the environment and/or human health and safety. 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 put the collateral at risk. Examples include storage and use of hazardous fuels and chemicals.

Resettlement/displacement/adverse impacts on vulnerable communities. It is not envisioned that resettlement/displacement issues will arise within the scope of this component of the project. Loans would only be provided to people with evidence of tenure (right to occupy their dwellings). However, originating and refinancing mortgages for properties built on land from which government agencies or developers may have removed communities, squatters or encroachers without proper compensation and/or via illegal forced evictions could represent a reputational risk to the project and must be avoided. Additionally, in cases of individual or incremental construction, should the area be subject to involuntary land acquisition or evictions by the government in the near future, this can represent credit risk in relation to properties used as collateral for housing loans.

Building safety. Key risks involve health and safety issues linked to improper techniques during construction of mortgaged properties (e.g. use of hazardous materials, inadequate life and fire safety, weak structural integrity etc.). This can affect both quality of collateral and personal health and safety of end borrowers. Compliance with national building codes/regulations can reasonably mitigate these risks for formal housing, which is the primary target borrower group for this LoC.

Locations of the housing/properties to be refinanced. The locations are expected to be predominantly in urban areas that can be often densely populated. Locational characteristics may include sites in poorly managed areas with limited or no basic services such as water supply and sanitation, which could sometimes lead to health risks and impacts for end borrowers or impact property values. 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.

Labor standards and conditions. For any business, the workforce is a valuable asset, and a sound employee-employer relationship is a key ingredient in the sustainability of a company. Failure to establish and foster a sound worker-management relationship can undermine worker commitment and retention and jeopardize a project. Conversely, through a constructive worker-management relationship, and by treating employees fairly and providing them with safe and healthy working conditions, clients may create tangible benefits, such as enhancement of the efficiency and productivity of their operations.

Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: It is expected that the project’s indirect positive contributions will be the overall growth of the market with an increase in the supply of houses that would be available for mortgage financing. 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 built in a way that has had adverse E&S impacts.

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6 This factor cannot normally be checked ex ante by the financial institutions so in practice PMLs would require end borrowers to represent that they would not undertake such activities.
7 This consideration would only apply to such resettlement/displacement that took place specifically in anticipation or preparation for the real estate/housing construction activities for which mortgages were subsequently originated by PMLs.
8 In this case, this applies to how KMRC and PMLs manage its own workforce.
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts:
The key alternative to help minimize E&S risks and impacts would be to not support the project. However, with proper risk mitigation in place, it would be expected that positive impacts outweigh the potential risks. The Project design has evolved since Concept in order to minimize E&S risks as it initially considered supporting land servicing.

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 by the World Bank for FIs to develop and operate an Environmental and Social Management System (ESMS) that is commensurate with the level of risk in existing and/or prospective activities. Specifically, Kenya 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.

Over the course of project preparation, KMRC has developed a well-documented ESMS consisting of five main components:

- E&S policy with clearly specified applicable E&S requirements and standards. The policy specifies the Applicable E&S Requirements, consistent with OP/BP4.03 as specified above.
- E&S risk management procedures for screening, identification, assessment, mitigation, monitoring and reporting of E&S risks; the procedures include KMRC’s due diligence process with regard to PMLs’ systems and capacity to implement E&S screening measures in accordance with KMRC requirements (which would constitute an ESMS as required by OP4.03 at the PMLs’ level). To that extent, KMRC will be required to integrate compliance with Applicable E&S Requirements (namely national law and exclusion list) into its overall eligibility criteria for housing finance loans as part of the refinance agreements with PMLs (the “Master Refinance Agreement” - MRA).
- Reporting requirements for internal and external stakeholders on implementation, namely a representation form that is integrated in the MRA and will be required to be submitted by each PML to confirm conformity of the mortgage portfolios submitted for refinancing with Applicable E&S Requirements. In other words, if the representation form indicates that full conformity has not been achieved at the time of application, a time-bound action plan will be developed to fill the gaps between the PML applicants’ E&S systems and KMRC’s ESMS requirements. The Action Plan will state the specific actions that the PML applicant needs to carry out to fill the gaps. Subsequent disbursements will be granted upon completion of specific actions to reach required capacity on E&S screening for housing loans.
- Capacity, roles and responsibilities within the organizational structure for managing and monitoring E&S risks are clearly articulated in KMRC’s E&S procedures. KMRC is a new institution and will be required to appoint 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 lending activities. Responsible staff will have expertise, qualifications and relevant experience in E&S risk management.
- Management commitment by KMRC to implement policies and procedures through formal disclosure of the E&S policy and provision of adequate support and resources for implementation, including to capacity building among PMLs. This commitment shall be demonstrated by formal adoption of the KMRC E&S Policy by their Board.
- KMRC has also developed, as part of its E&S policy, a grievance mechanism at its level to address concerns from the public regarding its operations.

Training / Capacity Building
PMLs that apply for refinancing with KMRC will not be known until project implementation. Nonetheless, putting in place ESMS at their level will involve: (i) raising awareness about the importance of E&S risks specifically for
their housing finance portfolios\(^9\) and links of E&S aspects to credit, reputational, and legal risks in financing; (ii) assistance with developing or strengthening E&S policies and screening procedures specifically for housing/mortgage finance that is tailored to how each of these institutions operates in the housing sector\(^{10}\) (providing templates, guidance, tools, questionnaires etc.); (iii) training and capacity building on how to implement these processes in practice. To that extent, KMRC will prepare an E&S Capacity Building Plan as a condition of disbursement of the line of credit.

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. KMRC will disclose its E&S Policy on its website. During the preparation of the E&S Policy, KMRC will also seek inputs and participation in the development of its E&S risk management approach from its shareholder banks. As PMLs refinanced by KMRC are also its shareholders, KMRC 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

<table>
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<tr>
<th>Date of receipt by the Bank</th>
<th>Date of submission to World Bank External Website</th>
<th>For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors N/A</th>
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<td>&quot;In country&quot; Disclosure</td>
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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 involved FIs. Based on this assessment, strengthening of existing systems is recommended and should follow the principle of continuous improvement to ensure that ESMS enables KMRC and PMLs to meet E&S requirements for the project. For this project, such assessment and recommended improvements (E&S action plan, or ESAP) are included in the Project Appraisal Document (PAD). Once key elements of the ESMS – such as E&S policy, procedures, and capacity - are in place and satisfactory to the Bank, the Bank approves the ESMS in a memorandum and includes the ESAP in the financing agreements. This approach allows the project an opportunity to enhance E&S systems and capacity. This is expected to ensure effective implementation and tangible outcomes for E&S risk management.

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?

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\(^{9}\) While some FIs in Kenya may have an institutional ESMS, either through requirements of international lenders such as IFC, these systems do not necessarily cover housing finance on the demand side. Most of the SACCOs also do not have formal E&S systems. KMRC, using its E&S Procedures, will review and evaluate this to determine what specifically needs to be improved/added for housing finance segment of banks’ operations.

\(^{10}\) It is very important to link ESMS to the overall credit risk / operational risk analysis for PMLs. Since each institution is organized differently, this is achieved through looking at their current systems and adding E&S aspect to risk screening and analysis.

November 17, 2018
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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**Approved By**

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<th>Safeguards Advisor:</th>
<th>Nathalie Munzberg</th>
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<tbody>
<tr>
<td>Practice Manager/Manager:</td>
<td>Niraj Verma</td>
<td>December 17, 2018</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Carlos Felipe Jaramillo</td>
<td>December 18, 2018</td>
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