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IVORY COAST  
ABIDJAN SITES AND SERVICES DEVELOPMENT  
681-HG-005

QUARTERLY REPORT

A. Basic Information

No changes.

B. Status Summary

1. Negotiations on the draft IA have been proceeding on a regular basis with both the MTP and Minfin since December, 1984. Among the principal constraints to moving the project to the implementation stage is the nonexistence of the Caisse de Mobilisation (CDM), the National Social Housing Fund, through which the HG loan was to be funneled.

The World Bank has undertaken two missions during this quarter which have dealt with this matter. Although there is still no clear-cut consensus between the Minfin and MTP with regard to the structure of the CDM, there does appear to be agreement that the initial projects financed by the CDM will target housing units costing between 4-8 million fcfa, the minimum cost for fully constructed units and fully serviced land. The 005 project targets outputs in the range of 1-2 million fcfa.

At the same time, current economic conditions have put a squeeze on the private banking system. There is a growing reluctance among bankers to get involved in a project such as 005 which requires a relatively high overhead rate per portfolio because of the small loan size. This cuts into the profit margins and liquidity situation for the managing bank.

2. As a result of the economic downturn of the last few years, there is also some question as to the eventual availability of the 20% or \$2.5 million counterpart funding. Related to this issue is the maximum allowable interest rate for on-lending to beneficiaries and the level of investment recovery that this rate would permit. The HG loan is intended to be part of a pool of resources managed by the CDM. By mixing the HG loan

with other zero and very low cost domestic resources, the effective on-lending interest rate of the project loans was to be considerably lower than the rate at which the HG was borrowed while still providing for full cost recovery. However, without recourse to this mixing of financial resources, there would be a difference between interest rates which would permit full cost recovery and those allowable by the Central Bank. This would preclude full cost recovery.

Other parameters have been introduced into the discussions which could conceivably lower the on-lending interest rate while permitting full cost recovery. These include: grace period of about three years on interest repayment; French franc loans through swapping to overcome a foreign exchange problem; and use of 004 escrow interest to mix with existing funds. MTP will be considering these options in developing alternative cash flow scenarios for the project.

3. Under these circumstances, RHUDO does not see itself at the moment as an integral decision-making player in the process of defining a CDM or in making the kinds of policy innovations in the sector as had been envisioned in 1982-3 under different economic conditions. RHUDO has helped to finance the studies which have shaped the present discussions but given that the Bank is negotiating a \$50 million project for the establishment of the CDM. It is RHUDO's belief that the GOIC and World Bank will come to an agreement on the structure and operation of the CDM more or less on their own and with an emphasis on a higher income group than originally hoped for.

Therefore, RHUDO has proposed alternative scenarios to the GOIC which do not depend on the CDM but which do embody policy initiatives, particularly with respect to substantial reductions in land servicing standards and enhanced affordability by low income groups. These alternative scenarios are the following: (1) using the HG loan to finance exclusively servicing of sites at minimal standards and calling upon escrow interest on 004 to finance a limited scale credit program which could be administered outside the CDM; and (2) making use of all HG loan funding to minimally service land and drop the small loan component.

RHUDO's expectation is that down the line with an 005 project successfully implemented along these lines and a functioning CDM that the GOIC could eventually be persuaded to target truly low income groups for CDM resources. This might be a more opportune time to introduce a project along the lines of the original 005 design.

5. The World Bank hopes to finalize the basic guidelines for constitution of the CDM by June, 1985. Even under the most favorable conditions, the CDM would not be functional before 2-3 years from then. If 005 is to be moved out of the pipeline in the foreseeable future, RHUDO will have to look to a project which does not depend on the existence of a CDM for implementation.

6. SICOGI, with whom RHUDO has worked in the past on 003, has expressed interest in playing a potential role in 005 implementation and financial management. Because SICOGI could fulfill the role of servicing small loans, it presents a potential alternative institution to the CDM/private bank arrangement as called for under the current project design. RHUDO has forwarded information on specific design of the project for Sicogi's review and further discussion.

7. The Mayor of Port Bouet has made a formal request to the Ministers of Public Works and Interior for financing of a pilot minimally serviced scheme and small loan program to finance construction of core housing units. This request has been discussed with RHUDO. RHUDO and MTP have given their unofficial approval conditional on the use of SETU as the implementing institution rather than AMCAV, the newly created private development agency identified in the Mayor's proposal. This recommendation has been made to the Minister of Public Works (MTP) who has yet to officially approve the project.

#### c. Problems and/or Delays

The nonexistence of the CDM has been a major stumbling block for concrete negotiations on the IA. Although RHUDO is remaining flexible on altering the project design, the GOIC has been reluctant to be decisive because the notion of the CDM being imminently created still hovers over the discussions. The GOIC, although not enthusiastic, appears to want to maintain the option of funnelling the 005 funds through that institution, at least for the time being. However, these discussions have been far less fruitful than everyone's expectations in terms of making progress in establishing the CDM, or even in conceptualizing its structure. Even if the institutional guidelines are finalized in June, 1985, it would still take about two years before the CDM would be functional and ready to receive HG financing.

D. Major Activities during Next Quarter

1. Discussions on the IA and alternative design scenarios will continue. Hopefully, World Bank discussions with the GOIC will yield some definitive ideas regarding the structure of the CDM so that the O05 design can be better situated in the overall system of housing finance which the CDM will introduce. Nonetheless, RHUDO will also pursue the other two design options as a means of moving the authorization to the contract stage in the short term.

2. Official approval of the Port Bouet pilot project is expected during the quarter. Formal request for financing of this activity from O03 escrow interest should be made by the Minister of TP to RHUDO and Minfin.