AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Long-Term Finance in Côte d'Ivoire

Country Diagnostic Report / September 2019

Abbreviations

AfDB	African Development Bank
AGEF	Agence de Gestion Foncière
AIDA	Africa Infrastructure Development Index
BCEAO	Banque Centrale des États de l'Afrique de l'Ouest
BMZ	Federal Ministry of Economic Cooperation and Development
BRVM	Bourse Régionale des Valeurs Mobilières SA
CAHF	Centre for Affordable Housing Finance in Africa
CDMH	Compt de Mobilisation de l'Habitat
CI-Energies	Société des Energies de Côte d'Ivoire
CGECI	Confédération Générale des Entreprises de Côte d'Ivoire
CGRAE	Caisse Générale de Retraite des Agents de l'Etat
CNP-PPP	Comité de National Pilotage des Partenariats Public-Privé
CNPS	Caisse nationale de Prévoyance Sociale (pension fund for private sector employees)
CREPMF	Conseil Régional de l'Epargne Publique et des Marchés Financiers
CRAE	Caisse de Retraite des Agents de l'Etat (pension fund for civil servants)
CRRH-UEMOA	Caisse Régionale De Refinancement Hypothécaire
COFINA	Compagnie Financière Africaine
CTU	Compte de Terrain Urbain
DC/BR	Dépositaire Central/Banque de Règlement
DFIs	Development finance institutions
ESP	Entrepreneurial Solutions Partners
FCFA	CFA franc
FSD Africa	Financial Sector Deepening Africa
FSH	Fonds Social pour l'Habitat
GDP	Gross domestic product
GIH	Global Infrastructure Hub
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH
ICA	Infrastructure Consortium for Africa
ICT	Information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IPO	Initial public offering
IPP	Independent power projects
LTF	Long-Term Finance
LCR	Liquidity coverage ratio
MFI	Microfinance institution
MFW4A	Making Finance Work for Africa
MoF	Ministry of Finance
NSFR	Net stable funding ratio
NPLs	Nonperforming loans
OECD	Organisation for Economic Co-operation and Development
OHADA	Organization for Harmonization of Business Law in Africa
PPP	Public-private partnership
SDGs	Sustainable development goals
SFD	Systèmes financiers décentralisés
SME	Small and medium-sized enterprise
SMI	Small and medium-sized industry
VC	Venture capital
WAEMU	West African Economic and Monetary Union

Long-Term Finance in Côte d'Ivoire

Country Diagnostic Report / September 2019

Acknowledgments

The main authors of this report are Michael Fuchs, Olivier Hassler, Franz Le Lesle, Dianne Rudo and Makaio Witte. The assessment is based on mission work undertaken in January 2018 as well as shorter visits undertaken in September 2017 and October 2018.

The report benefited from inputs from Emmanuel Diarra (African Development Bank, AfDB), Morsy Hannan (AfDB), Thierry Kangoye (AfDB), Francis Kemeze (AfDB), Patrick Mabuza (AfDB), Thouraya Triki (AfDB), Evans Osano (Financial Sector Deepening Africa, FSD Africa), Vimal Parmar (FSD Africa), Thorsten Beck (Cass Business School) and Makhtar Gueye (Lion's Head).

The report was written under the overall guidance of Mark Napier (FSD Africa) and Wolfgang Buecker (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH).

The report benefited considerably from inputs provided at a technical workshop organized by AfDB on July 9, 2019. Those providing comments on the report at this workshop included representatives of the Ministry of Economy and Finance, the Ministry of Construction, Housing and Urban Planning, the Ministry of Equipment and Road Maintenance, the Ministry of Transport, the Ministry of Trade, Industry and Promotion of SMEs, the National Committee on Public-Private Partnerships, and Banque Centrale des États de l'Afrique de l'Ouest (BCEAO).

The team is very grateful to the many public and private stakeholders with whom it met in Abidjan.

List of Figures

List of Tables

List of Boxes

Contents

Executive Summary

While developing countries and the donor community have in recent years placed considerable emphasis on strengthening access to financial services and on designing national financial inclusion strategies, the traditional role of finance in allocating scarce resources to the economy's most productive uses has attracted less attention. The Africa Long-Term Finance (LTF) Initiative seeks to rebalance the focus toward this perspective by (a) assembling data and establishing a "LTF Scoreboard," on which individual countries are benchmarked against one another on the availability of LTF, and (b) undertaking country diagnostics in a number of African countries to identify specific hurdles faced in deepening markets for LTF and ways such hurdles could be overcome. This report is the first of these country-diagnostic reports.

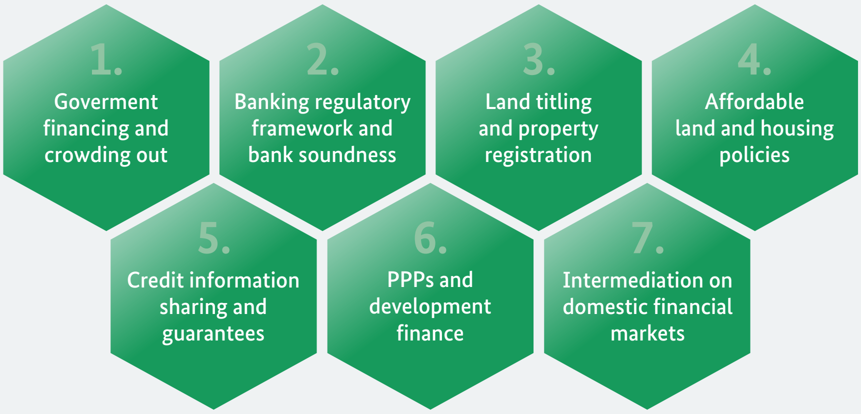
This country report on Côte d'Ivoire focuses on infrastructure, housing, and enterprise finance. It applies a flexible definition of LTF that reflects the differing productive life of assets being financed, which may vary from 20 to 30 years in the infrastructure and housing sectors and 5 years or less for enterprises. Gaps in the provision of LTF arise because of the varied maturities available to those financing investments in these sectors. Long-term funding for infrastructure in Africa is predominantly provided by circumventing the domestic intermediation process altogether – by using long-term funds provided by governments or donors or by obtaining capital in the form of foreign borrowing or direct investment. Enterprises, particularly if small and medium-sized, face serious challenges in accessing adequate and affordable long-term financial resources. Rather than funding themselves on formal markets through bank loans or the issuance of debt and equity, small and medium-sized enterprises (SMEs) rely on funding provided by family and friends, even though such funding is unlikely to be sufficient in terms of size and maturity to satisfy their investment needs. Housing finance is found to be scarce and offered over too short a term, and therefore it is unaffordable for many households, leading to incremental construction.

Given scarce fiscal resources and the underdeveloped status of domestic financial markets, the report identifies sizable long-term financing gaps in the infrastructure, housing, and enterprise sectors. This deficiency points to the imperative of enhancing the provision of LTF by leveraging public and donor resources and by harnessing the contribution of the private sector. In this context a concerted effort is required to better use existing sources of long-term funding, as provided by banks, institutional investors, and similar enterprises, and to develop new sources of funding.

The diagnostic undertaken in Côte d'Ivoire identifies seven broadly defined hurdles, as illustrated in figure 1. Each of these hurdles and corresponding recommendations for their alleviation are briefly outlined in the following sections. The recommendations are organized into two categories according to their different time horizons: (a) operational changes that imply potential "quick wins" and (b) those changes that will require structural, institutional, legal, and regulatory modifications and thus may take longer to implement. In the boxes, the key agency designated to take responsibility for implementation is identified in parentheses following each recommendation.

FIGURE 1

Hurdles in the Provision of Long-Term Finance in Côte d'Ivoire



Note: PPP = public-private partnership

1. Government borrowing crowds out bank lending to the private sector. Governments in Côte d'Ivoire and other countries in the regional block, the West African Economic and Monetary Union (WAEMU), rely on banks to fund their fiscal needs. The regional central bank, Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), facilitates that reliance by providing liquidity to banks against security in the form of government securities. In recent years, greater reliance has been put on borrowing in foreign-currency-denominated bonds. Although this option reduces pressure on the local market and on potential crowding out, it raises concerns about exchange rate risk and refinancing costs.

Recommendations: Government financing

Operational

- Strengthen collaboration between national fiscal authorities and the regional monetary authority, the BCEAO, to champion policies for deepening the domestic market for LTF (Prime Minister).
- Strengthen macroeconomic management, particularly with a view to augmenting tax revenue generation, thereby placing less reliance on government borrowing (Ministry of Finance, MoF).
- Review the BCEAO's refinancing of government securities and the implied subsidy to the banks (BCEAO).

Institutional and legal/regulatory

- Unify sovereign financing instruments, issuance practices, and platforms used by the BCEAO and the regional stock exchange, the Bourse Régionale des Valeurs Mobilières SA, BRVM, so as to increase market depth and to establish a liquid benchmark for pricing longer-term financing risk (BCEAO, BRVM, and Conseil Régional de l'Epargne Publique et des Marchés Financiers, CREPMF).
- Adopt a standard so-called global master repurchase agreement on the money market, thereby addressing concerns regarding counterparty risks and enhancing liquidity on the secondary market for government securities. This reform requires assurance that netting procedures can be applied in bankruptcy (to prevent a situation in which multiple bilateral repurchase agreements need to be unraveled) and may be premised on changes to bankruptcy legislation (BCEAO).

2. Ongoing regulatory reforms can hinder banks' willingness to undertake long-term lending. The BCEAO has announced the gradual introduction of the Basel II and III prudential frameworks in the period 2018 to 2022. Although the revised prudential framework will strengthen banking system resilience, it appears already to be slowing the growth of bank lending as banks adjust to augmented capital requirements and a reformed framework for managing bank liquidity and interest rate risk.

Recommendations: Banking regulation

Operational

- Address regulatory forbearance and ensure that banks live up to fundamental prudential regulations – for example, regarding minimum capital requirements and single obligator limits. Such parameters are important to maintaining the solvency of the banking system and, thereby, the banks' ability to sustain long-term lending (BCEAO).
- Facilitate banks' issuance of subordinated debt eligible as tier II or additional tier I capital to make it easier for banks to comply with the BCEAO's increased regulatory requirements (BRVM).

Institutional and legal/regulatory

- Consider lowering risk weighting of (a) bank lending secured in the form of residential mortgages, (b) banks' holdings of bonds issued by the regional liquidity facility for housing, Caisse Régionale De Refinancement Hypothécaire, CRRH, and (c) loan portfolios collateralized by CRRH (BCEAO).
- Given the level of development of the Ivorian banking system, the BCEAO's limited supervisory capacity, and the need to address regulatory forbearance (see above), the BCEAO could consider whether introduction of Basel II and III prudential requirements could be calibrated to better address the situation of the WAEMU banking system (BCEAO).

3. Limited availability of registered real estate and high conveyance costs constrain lending against security in real estate. Currently, only a limited number of properties are formally registered and thereby eligible for a mortgage. The land administration system covers only part of the country and record keeping is weak. Registration and conveyance costs are high and the legal status of subdivided properties (apartments) is not well defined. The court-based process for enforcement of liens on real estate is costly, cumbersome, and lengthy.

Recommendations: Lending against security in real estate

Operational

- Complete the computerization of the land registry to enhance security, automate processing, and reduce delays (Compte de Terrain Urbain; Agence de Gestion Foncière; and Ministry of Construction, Housing, and Urban Planning)
- Reduce registration and transfer fees on movable and immovable property (Compte de Terrain Urbain; Agence de Gestion Foncière; and Ministry of Construction, Housing, and Urban Planning).

Institutional and legal/regulatory

- Strengthen the judiciary's understanding of secured lending and foreclosure processes and move toward out-of-court procedures (Ministry of Justice).
- Build on and expand the issuance of bonds by the regional liquidity facility (CRRH) while maintaining the facility's strict refinancing criteria (WAEMU Council of Ministers and BCEAO).

4. The availability of social housing is constrained by the limited availability of affordable land and by housing subsidies that do not leverage private funding. Most real estate development takes the form of incremental building processes on informally held, ill-serviced plots. Government efforts to build land reserves, formalize property rights, develop urban infrastructure, and provide financial relief to lower-income households are inadequate and fiscally constrained. Interventions come too late to prevent speculative appreciation of land targeted for real estate development.

Recommendations: Affordable land and social housing policies

Operational

- In exchange for increasing the availability of titled land, introduce specific levies and taxes on developers to support urbanization projects and to fund support for affordable housing projects (Agence de Gestion Foncière).
- Introduce credit-linked subsidies that leverage private financing and target specific groups of lower-income borrowers (Agence de Gestion Foncière).

Institutional and legal/regulatory

- Encourage mobilization of Long-Term Finance at the start of the housing delivery chain by adopting a public-private partnership (PPP) approach under the land management agency (Agence de Gestion Foncière).
- Encourage lending to creditworthy borrowers in the informal sector by introducing a self-sustaining credit guarantee scheme (Agence de Gestion Foncière).

5. Weak information sharing and market transparency Information about the market for LTF in Côte d'Ivoire is limited. The banks' preference for short-term lending to enterprises is symptomatic of the limitations in the availability of credit information. Short-term lending provides banks the opportunity to closely monitor their borrowers; currently banks are unable to rely on information shared with the credit bureau because the coverage is incomplete. However, the problem is much broader and is highly detrimental to the deepening of the market for Long-Term Finance.

Recommendations: Information sharing and market transparency

Operational

- Assemble and publish on a regular basis information on SME finance:
  - SME demand for financial services using a standardized definition of SMEs (BCEAO and banks).
  - The products made available to SMEs by banks, including the maturity of their lending (BCEAO and banks).
  - The availability, utilization, and effectiveness of credit guarantees (BCEAO and banks).
- Assemble and publish on a regular basis information on infrastructure finance:
  - The funding capacity of financial intermediaries to invest in infrastructure (BCEAO, other financial sector regulators, and financial intermediaries).

- Information on existing project preparation facilities (such as AfDB) and guarantee mechanisms (PPP unit).
- Project pipeline and preparation process (Prime Minister's office and PPP unit).
- Up-to-date market data for potential investors (PPP unit).
- Information on affordability for customers and their willingness to pay for utility services (PPP unit).

- Assemble and publish on a regular basis information on housing finance:
  - Coverage of the land-titling system, including property-specific data on ownership and transfer of ownership (Compte de Terrain Urbain).
  - Detailed data on the housing stock, building activity, and completion rates (Agence de Gestion Foncière).
  - Data on sources and uses of the funding of real estate (Agence de Gestion Foncière; and Ministry of Construction, Housing, and Urban Planning).

Institutional and legal/regulatory

- Oblige financial intermediaries to provide reliable and comprehensive information to the credit bureau on a timely basis. This recommendation requires amending the regulation sanctioning the sharing of information about bank borrowers, setting aside confidentiality agreements between banks and their clients (BCEAO).

6. Insufficient capacity to support the preparation and implementation of PPP transactions. The commitment of the government to define a robust project pipeline and ensure adequate funding for early project development is inadequate. Insufficient resources are available to the PPP unit, and institutional support from relevant line ministries is weak. The processes for satisfying the informational requirements of potential private sector investors are inadequate. The foundation for undertaking PPPs is also hampered by the limited autonomy and independence of infrastructure utilities – for example, regarding their funding and tariff policies.

Recommendations: PPP framework

Operational

- Significantly strengthen the mandate and capacity of the PPP unit to become a proactive, user-friendly entity empowered to expand the project pipeline (Prime Minister).
- Signal a shift toward a preference for local currency project financing (PPP unit).
- Strengthen the capacity of the PPP unit, sector ministries, and the private sector in project preparation, planning, and implementation (PPP unit).
- Access donor funding to defray the costs of early-stage development, feasibility assessment, and project preparation (PPP unit).
- Assemble information about the provision of credit lines, insurance, take-out facilities, and partial risk guarantees with a view to assessing their impact (PPP unit).

Institutional and legal/regulatory

- Undertake structural reforms to improve the institutional independence, governance, and operational efficiency of utilities, thereby strengthening their creditworthiness and ability to fund themselves on a corporate finance basis (Line ministries supported by MoF).
- Create a track record whereby utilities are empowered to collect cost-reflective tariffs (Line ministries supported by MoF).
- Establish a debt-financing platform for "bundled" smaller-scale projects (PPP unit and CREPMF/BRVM).

7. The intermediation of long-term funding by institutional investors needs strengthening. Currently the domestic intermediation of LTF is hampered by the limited size of the institutional investor base, the constrained investment mandates of institutional investors, and overly burdensome requirements relating to the issuance of securities on the regional capital market. The purpose of the suggested reforms is to facilitate the use of nonbank sources of enterprise finance and to enhance the role of institutional investors – changing these sources' current practice from reverse-maturity transformation (whereby they invest long-term savings in predominantly short–term assets) to making a significant positive contribution to long-term investment.

Recommendations: Enhancing domestic intermediation of Long-Term Finance

Operational

- Review the costs relating to an issuance on the regional exchange with a view to cutting fees and charges collected by CREPMF, BRVM, brokers, dealers, and banks (MoF, CREPMF, BRVM).
- Simplify the process of preparing issuance prospectuses and reduce delays associated with CREPMF's approval processes (CREPMF).

Institutional and legal/regulatory

- Undertake a feasibility study on establishing a factoring platform to ease enterprise access to trade finance and thereby allow banks to focus their lending more toward LTF (MoF).
- Diversify the investment mandates of institutional investors. Review the regulation of assets under management in the pension and insurance sectors with a view to incentivizing investment in project finance and acceptance of new asset classes (pension funds and MoF).

- Educate and inform institutional investors and their trustees about investment opportunities in new asset classes (pension funds, insurance companies, and MoF).
- Increase local institutional investors' familiarity with project financing using limited recourse finance transactions (CREPMF).
- Support the creation of local currency infrastructure bond funds (investing in a series of projects) that feature credit enhancements to encourage investment by local institutional investors (pension funds, insurance companies, and MoF).
- Increase the local savings pool by (a) providing informal workers with access to basic, fully funded pension coverage, (b) undertaking parametric reforms (adjustments to factors such as retirement age, size of pension contributions, access to withdraw pension savings as a lump sum, and so on) so as to increase the long-term viability of the public sector pension scheme, and (c) considering a move toward funding pensions on a defined contribution basis (pension funds and MoF).

Charting the way forward

The agenda identified here is comprehensive and multi-faceted. Its implementation requires clear leadership and coordination, all the more so as the provision of Long-Term Finance will be crucial to the growth trajectory and development of the Ivorian economy. Given the scope of the envisaged reforms, leadership from the highest level of government will be crucial. As many countries in Africa in the past decade, Côte d'Ivoire has developed a National Financial Inclusion Strategy. Côte d'Ivoire now needs to develop a Long-Term Financing Strategy that encompasses the areas identified in this summary. The **Long-Term Financing Strategy** needs to clearly identify (a) responsibility for overall leadership, (b) a strong coordinating framework that ensures that progress proceeds rationally across various sectors, and (c) clear reporting and monitoring of results. The strategy will also need to (d) identify the responsibilities of implementing agencies, (e) delegate responsibility for delivery of agreed actions, and (f) ensure that resources to deliver on the objectives of the strategy – whether provided by the authorities or by donors and the private sector – are made available to the implementing agencies.

1. Introduction: The Africa Long-Term Finance Initiative

This report was written in the context of the Africa Long-Term Finance Initiative, a joint initiative of the African Development Bank (AfDB), the Financial Sector Deepening Africa (FSD Africa), the German Federal Ministry of Economic Cooperation and Development (BMZ, implemented by GIZ), and the Making Finance Work for Africa (MFW4A) Partnership. Launched in 2017, the initiative is hosted by the AfDB in Abidjan, Côte d'Ivoire. This country diagnostic report was also supported by the Centre for Affordable Housing Finance.

While markets for short-term finance in Africa are far from fully developed, considerable progress has been made over the past decade, partly driven by financial innovation. Access to finance has been enhanced through traditional sources, predominantly banks and the deepening of short-term (mostly government) securities markets, as well as through the increasing prevalence and adoption of intermediation models pioneered by microfinance institutions, savings and credit cooperatives, agent banking, and mobile financial services. Less progress has been made in developing Long-Term Finance on the continent.

Against this backdrop, the initiative's overarching objective is to boost the intermediation of Long-Term Finance (LTF) in Africa to close the financing gap for firms – in particular small and medium-sized enterprises (SMEs) – as well as for housing and infrastructure projects on the continent. This objective will be accomplished through a two-pronged approach that aims to improve market intelligence and development across Africa and to provide impetus for effective reforms at the national level.

The first component is a new LTF database and scoreboard to enhance transparency about LTF in Africa and to benchmark specific indicators to provide insight into the comparative level of development of markets for LTF across Africa. The purpose is to inform policy makers, the private sector, and donors about the availability of LTF across Africa and existing bottlenecks, and to provide impetus for reform.

The second component is a series of in-country diagnostics. Going beyond comparative data, the in-country diagnostics will provide in-depth analysis of LTF markets in individual jurisdictions. The diagnostics encompass enterprise finance with a focus on SMEs, housing finance, and infrastructure finance. The intention is to reveal strengths and weaknesses in the specific country context and to develop policy recommendations to improve the intermediation of LTF. The diagnostics follow a transaction-focused, bottom-up approach. The team works closely with private sector stakeholders to draw from their experience in servicing markets and leverages international good practice from other developing and emerging countries to glean innovative financing techniques relevant to the African context.

Côte d'Ivoire, a member of the G20 Compact with Africa, was chosen as the first pilot country for an in-depth assessment. The Compact with Africa was initiated during the German G20 presidency in 2017 to promote private investment in Africa. Central to the Compact with Africa is the concept of mutual commitments to measures and instruments that can improve the framework conditions for private investment, including infrastructure. The aim is to develop comprehensive, coordinated, and country-specific Investment Compacts between individual African countries, international organizations, and other partners. Investment Compacts will specify measures and instruments to improve the macro, business, and financing frameworks. The results of this country diagnostic are intended to inform the discussion on reform priorities in Côte d'Ivoire, particularly concerning the financing framework. Following the diagnostic in Côte d'Ivoire, further assessments are planned for additional Compact with Africa member countries.[1]

2. What Do We Mean by LTF and Why Does It Matter?

Long-Term Finance relates to funding to support medium-term and long-term investments by enterprises, households, and governments in a country's real economy. Long-Term Finance is typically defined according to a specific threshold maturity, with some using a one-year threshold and others using maybe five years. In practice, the notion of Long-Term Finance has different meanings for different markets. As in the majority of countries in Africa, investments in Côte d'Ivoire can attract funding only of much shorter maturity than the assets being financed. Although banks in Côte d'Ivoire may be willing to finance infrastructure investments with loans of up to seven years in maturity, they may well only be willing to fund enterprise investments with loans of 3 to 12 months' maturity. Thus a large portion of enterprise "loans" are in fact overdrafts that are rolled over.

The maturity of the financing should approximate the economic life of the underlying asset. Where this is not the case, investors, firms, and projects are exposed to liquidity and interest rate risks that severely constrain investment. Given the broad coverage of sectors, this report adopts a broad definition of LTF. It considers the minimum threshold for long-term financing as applied to the enterprise sector as being one year, cognizant of the fact that in the real estate or infrastructure sector the relevant thresholds will be higher. The ambition is, in any case, to lengthen maturities to the extent that tenors more closely match the lifetime of the productive assets they are financing.

The focus is primarily on deepening the domestic market for LTF. Although deepening domestic markets is a medium to long-term endeavor, it is important both to enhance domestic saving and the efficient deployment of scarce domestic resources and to reduce exposure to potential foreign exchange risks. The fixed exchange rate between the CFA franc and the euro may reduce the risks associated with financing in foreign currency. But weak development of local financial markets results in higher risk premia and higher domestic interest rates than the effect of foreign currency on more developed markets. Given that developing economies, such as Côte d'Ivoire, will continue to rely on foreign investment as an important source of investment financing for the foreseeable future, strengthening the domestic financial system, particularly the enabling environment and institutional infrastructure, will be an important signal to attract foreign sources of capital, such as foreign direct investment and portfolio investments.

Long-Term Finance matters because it funds economic growth. Whereas the emphasis of policy makers in Africa and in the donor community during the past decade has predominantly been on enhancing financial inclusion, a growing realization is that inclusion is only one side of the coin. As much as inclusion is important in reaching the marginalized or informal economy and in providing short-term loans as working capital for firms, long-term financing is needed to support the growth of productive activities in key economic sectors. Longer-term investments support growth by reducing costs (such as for transport and communication), thus increasing productivity and competitiveness, and creating jobs. Africa needs to accelerate investment to generate employment for the 12 million young African people joining the labor force every year.[2] Those areas most affected by the availability of long-term financing are:

- **Infrastructure.** In Africa, one of the main factors hindering economic growth is insufficient infrastructure in key sectors such as power, water, and transport services that would enable firms to thrive in industries with strong comparative advantages. The current lack of or poor quality of infrastructure drives up the cost of doing business and poses a severe impediment to economic diversification and growth. According to the United Nations Economic Commission for Africa, the continent's infrastructure deficit lowers Africa's per capita economic growth by 2 percent a year and firm productivity by 40 percent.[3]
- **Housing.** Given the megatrends of urbanization and rapid population growth, greater investment in housing is critical to improving living conditions and could be a major driver of local employment, but so far housing finance is only at a nascent stage in most African countries.
- **Enterprises.** Most SMEs are potentially important drivers of growth and employment, but their number and size remain small partly because they can only

access short-term and often high-cost informal funding to finance their investment needs.

LTF matters because it improves the affordability of investments. Providing long-term financing for investment projects is essential to achieving affordability-whether in providing infrastructure services to consumers or in facilitating enterprise finance and mortgage finance. Long tenors reduce annual debt service and allow projects to have a development or "ramp up" period before starting debt repayment. Loans to finance hydroelectric projects or toll roads, for example, require 15 years or longer so that the amortization of the loan to pay the capital cost of the project covers a long-enough period to result in an affordable tariff to end consumers. In the 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 Ivorians, effectively excluding the majority of the population from using this type of product.

LTF is a key enabler to achieve the United Nations Sustainable Development Goals (SDGs). Through the channels outlined here, increasing the availability of LTF to the local economy directly and indirectly contributes to the attainment of the goals to end poverty and hunger (SDGs 1 and 2), improve access to quality education (SDG 4), obtain clean water and sanitation (SDG 6), and develop affordable and clean energy (SDG 7).

Long-term funding for infrastructure in Africa is predominantly provided by circumventing the domestic intermediation process altogether-using long-term financing provided by governments or donors or obtained in the form of foreign borrowing or direct investment. Little reliance is placed on funds intermediated by local financial markets, whether in the form of private placements, syndicated loans, or public issuance of securities. The dominant share of infrastructure investment in Africa (42 percent) continues to be financed by national governments (using tax and nontax revenues as well as domestic and international borrowing) with bi- and multilateral development banks (35 percent) and Chinese funding (10 percent) coming in second and third place.[4] Recent emphasis on deepening local markets has arisen due to the need to diversify the sources of long-term funding. The availability of concessionary donor funding is constrained, and foreign borrowing entails foreign exchange risks that cannot easily be passed on to local users of infrastructure services. Thus, government efforts have gradually shifted toward catalyzing domestic private investment.

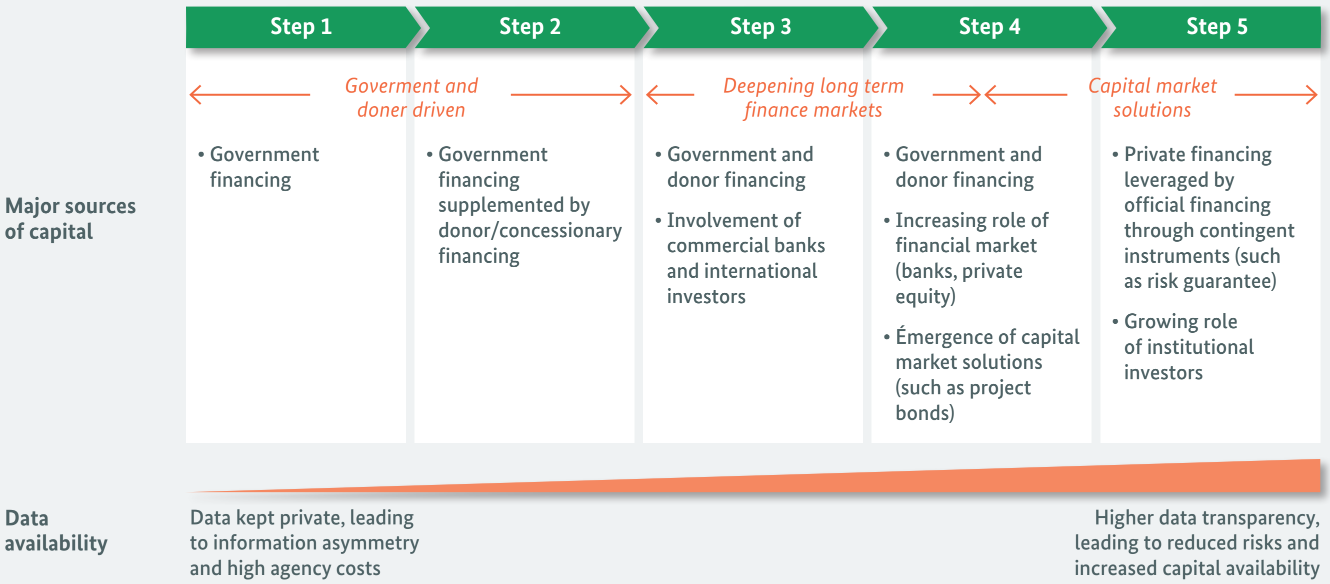
This progression toward greater reliance on domestic markets in financing infrastructure is illustrated by the funding escalator in figure 2.1, which shows that reliance on government financing gradually declines in line with greater private sector investment. Governments could support the development of local sources of Long-Term Finance for infrastructure by strengthening the local legal, regulatory, and institutional environment. Governments and donors alike may also need to revisit their role in development finance to ensure that scarce public resources are used as effectively as possible in catalyzing private funding rather than being used to directly fill financing gaps. Prudence in using fiscal resources is also crucial in supporting government efforts to keep public debt levels manageable. Because of risk aversion, banks prefer to invest in "risk-free" government securities rather than lend to the private sector, and where governments' domestic borrowing is excessive, it tends to crowd out bank lending to the private sector, thereby stalling the process of financial sector deepening and sustainable domestic solutions in the long term.

Eventually, in moving up the escalator, lenders will be able to place greater reliance on capital markets as a funding source. However, in the short to medium term, recourse to capital markets will be associated with considerable challenges relating to (a) high preparatory costs arising from the need to corporatize the issuing utility and prepare relevant disclosures to potential investors (such as audited financial statements), (b) regulatory reforms (sanctioning the adjustment of tariffs to ensure cost recovery), (c) the small size of the investor base, and (d) significant issuance costs (in terms of preparing a prospectus, paying fees to the exchange, arranging for a bank, and so on). In addition, the advantages of issuing on the quoted market may be compromised because of the absence of market liquidity, which is important both in pricing new issues and in enabling trading of securities on the secondary market.

Small and medium-sized enterprises face serious challenges in accessing adequate long-term financing in Africa. Because the vast majority of African SMEs do not produce audited financial statements that yield credible financial information, asymmetric information is a serious problem for SMEs, more so than for larger

FIGURE 2.1

The Infrastructure Funding Escalator



Source: Long-Term Finance Initiative Note: LT = long-term

firms. Furthermore, the line of demarcation between the finances of the owner(s) and those of the business is often blurred in smaller firms. Also, the ability of lenders to assess the business prospects of the activities undertaken by their borrowers (the principal/agent problem inherent in all financing operations) is particularly acute in the case of SMEs, which may undertake projects that lenders deem to be excessively risky. Against this backdrop, the lack of credit histories and collateral often results in severe credit constraints for SMEs. Due to limits to the enforceability of contracts, collateral requirements often exceed the value of the loan. When a loan cannot be repaid, the lender invariably encounters problems liquidating the collateral and lengthy waits for resolution of the disputes.

In analogy to the funding of infrastructure, a progression of the Long-Term Finance market can be observed in enterprise finance. Rather than seeking funding on formal markets, SMEs may find funding provided by family and friends, although this is unlikely to be sufficient in size and maturity to satisfy their investment needs. Nonetheless, among policy makers the tendency has been to focus on the establishment of formal banking markets. When it comes to capital markets, policy implementation has often been focused on formal markets, and officials have not actively sought to promote the provision of a continuum of informal and formal, private and public financing vehicles. A comprehensive review of the World Bank's approach to capital market development in 2016 found that equity market interventions, particularly when targeted at listing local SMEs on the stock exchange, had only limited success.[5]

A more diversified set of options for SME financing is required to support long-term investment. Making a dent in filling the gap in long-term financing is unlikely to take place on listed, public markets. Rather, financing is likely to be generated through unlisted instruments and alternative sources of finance – for example, project bonds for infrastructure projects or, given the right incentives, through private equity for SMEs. Figure 2.2 illustrates how various sources of finance progressively become more available at various stages of market development. The evolution ranges from funds provided by family and friends, angel investors, and venture capital at one end to private equity and listed instruments at the other end of the spectrum.

Government interventions in the market for SME finance take a different form than in the infrastructure sectors. Experience suggests that providing direct funding to SMEs is unlikely to be a sustainable approach, mostly because public institutions have difficulty assessing credit risks and implementing commercially sustainable lending practices. In recent years, governments have used more catalytic approaches designed to support private banks in developing their capacity to lend to SMEs, such as credit lines and partial credit guarantees. In addition, the authorities have a major role to play in improving the legal and regulatory environment for SME lending, not least in strengthening registration of movable and immovable property, improving the process for foreclosure on collateral in the case of default by the borrower, and establishing the enabling environment for credit bureaus to provide access to reliable and comprehensive information about borrowers' current and past repayment performance.

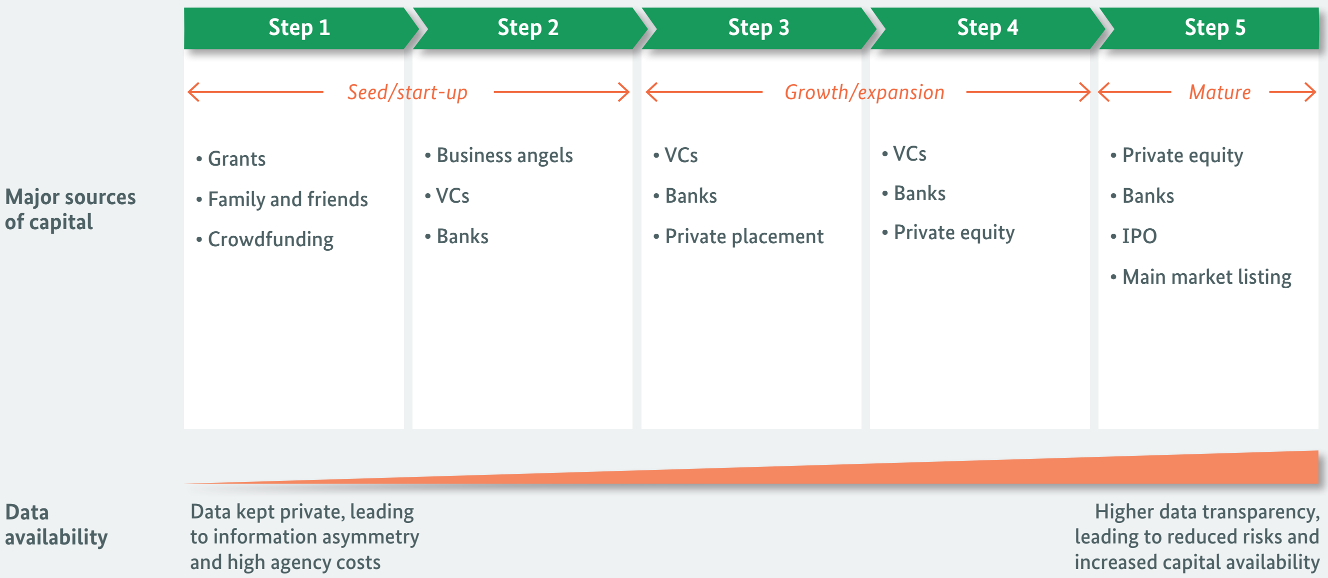
Moving up each step on the funding escalator is predicated on a reduction in information asymmetry and in agency costs. As formality in the provision of capital rises, financial markets are able to intermediate larger amounts of capital. Thus, there is a correlation between the steps on the escalator and the progression from market opacity to greater transparency.

For the purposes of the assessment provided in this report, there are two crucial takeaways:

First, the public capital markets are at the highest level on the escalators. At early stages of market development, capital markets with publicly listed companies represent only a small fraction of the Long-Term Finance being intermediated in the economy. Such markets may well be able to function without the remaining components being active, but it is unlikely that they will be able to flourish, as financiers (whether they are governments or private sponsors) will gradually work their way up the escalators in generating "deal-flow". Leap-frogging is likely to be the exception rather than the rule.

Second, reducing information asymmetry and agency costs is crucial to moving up the funding escalators and enabling larger levels of capital to be intermediated on financial markets. There is a logical relationship between moving up the steps on the escalator and progression from market opacity to greater transparency. At earlier stages of development with little private sector involvement in infrastructure finance – when enterprises largely rely on informal sources of finance (family or friends) and banks and homeowners predominantly rely on building their homes incrementally from current savings – very little information is available to those agents who might arrange for third-party funding. Overcoming information asymmetries and reducing the agency costs are challenges that cut to the core of the effort to develop markets that can better serve the long-term funding needs of developing African economies.

FIGURE 2.2
The Enterprise Funding Escalator



Source: Long-Term Finance Initiative Note: VC = venture capital; IPO = initial public offering

3. Brief Introduction to the Ivorian Economy

Since the end of the political crisis in 2010, Côte d'Ivoire has consistently outperformed regional and global peers in terms of economic growth. With a population above 24 million people and a gross domestic product (GDP) of USD 40 billion, Côte d'Ivoire is a lower-middle-income country. It is the dominant economy in the eight-country West African Economic and Monetary Union (WAEMU) customs and currency union and currently the third-largest economy in West Africa behind Nigeria and Ghana. According to World Bank data, per capita annual income increased by 36 percent between 2011 and 2017 and reached USD 1,662 in 2017. After economic growth peaked at nearly 10 percent in 2012 – not a surprising rate for an economy recovering from a temporary shutdown of its vital sectors – Côte d'Ivoire has continued to maintain a robust short-term and medium-term outlook. The International Monetary Fund (IMF) expects real growth rates to remain strong with a gradual deceleration from 7.0 percent in 2019 to 6.4 percent in 2022.[6] Inflation has remained benign at below 2 percent for seven years, largely because of WAEMU's integrated monetary policy and the peg of the bloc's joint currency, the CFA franc (FCFA), to the euro.[7]

Côte d'Ivoire's economy is reasonably well diversified. Economic growth is driven by the agriculture (24 percent of GDP in 2016), industry (29 percent, including mining with 6 percent), and services (47 percent) sectors. With an over 50 percent share of exports, cocoa is Côte d'Ivoire's main trade product. Cocoa makes up 15 percent of the country's GDP and provides employment for 7 million Ivorians. Agricultural production has continued to grow in recent years thanks to higher production volumes in cocoa and other export-oriented crops such as cashews, rubber, and pineapples. Industrial sectors, especially construction, have grown considerably since 2011, in part because of government infrastructure programs. However, extractive industries, in particular gold mining, have not recovered from the commodity price slump of 2014. At 6 percent, extractive industries now represent the same share of GDP as construction activities.

Informality is an important factor in the Ivorian economy. In 2016, informal employment in Côte d'Ivoire was responsible for 88 percent of total nonagricultural employment.[8] While informal jobs help sustain the livelihoods of a large share of the population, particularly the poor and vulnerable, they tend to be characterized by low productivity and low pay and tend to focus on nonexportable goods and services. As emphasized by the Organisation for Economic Co-operation and Development (OECD), excessive reliance on the informal sector is a hindrance to significant increases in productivity,[9] and as in other countries, informality is an impediment to expanding the tax base.

Despite a growing budget deficit, the level of Côte d'Ivoire's indebtedness remains contained. Government spending stands at 23 percent of GDP and is expected to keep growing. The budget deficit, which has averaged around 3 percent of GDP (the limit set for WAEMU member states), swelled to 4.5 percent of GDP in 2017, with a projected gradual decrease in 2018 and 2019.[10] In 2017, the government deficit was funded by a mixture of international bond issues equivalent to 40 percent of the government's funding needs, issuance of domestic securities (mostly sold to banks) equivalent to 35 percent of the government's funding needs, and financing from international multilateral and bilateral donors for the remaining 25 percent of the government's funding needs. Public debt has risen steadily in recent years, reaching 48 percent of 70 percent, the trajectory is of concern. From the perspective of deepening bank funding of the private sector, heavy reliance on sale of "risk-free" sovereign securities to banks as the source of funding of the fiscal deficit poses serious challenges in terms of crowding out.

The business climate has shown significant improvement in recent years. Among the factors contributing to this improvement are the implementation of a single user identification number for business creation, online submission of complaints to the Commercial Court of Abidjan, publication of rulings from the Commercial Court, and the initiation of a system of electronic land registration. As a result, Côte d'Ivoire has advanced from the rank of 177 in 2014 to the rank of 139 (out of 189 economies) in the 2018 Doing Business report. Although Côte d'Ivoire performed slightly above the average for Sub-Saharan Africa, it fairs poorly in the fields of paying taxes, trading across the border, protecting minority investors, and getting credit.[11] The enforcement of contracts still takes an average of 525 days and costs 42 percent of the contract's value. The Ivorian government's efforts to strengthen regulations and set up anti-corruption entities resulted in an improved Corruption Perception Index score in 2017.[12]

The government's National Development Plan 2016–20 aims to transform Côte d'Ivoire into an emerging market economy with a strong industrial base and to reduce poverty. To achieve these objectives, the government intends to accelerate the structural transformation of the economy through industrialization, by reinforcing infrastructure development across the economy, notably in the energy sector, and by enhancing the quality of governance and institutions.[13] For example, Côte d'Ivoire is planning to invest around USD 7 billion in the coming five years in infrastructure, equivalent to 17 percent of total government spending.[14] Côte d'Ivoire's economy was able to rebound quickly post-2010 thanks to its good – albeit aging – road and utility systems as well as its financial and monetary integration within WAEMU. Thus, its port regained its status as being the largest port in Western Africa and cocoa production surged back to its world leader status. However, to maintain its economic dynamism, the Ivorian economy will need to increase the pace of upgrading its infrastructure.

4. LTF Funding Gaps in Côte d'Ivoire and the State of the Ivorian Financial Sector

4.1 LTF funding gaps

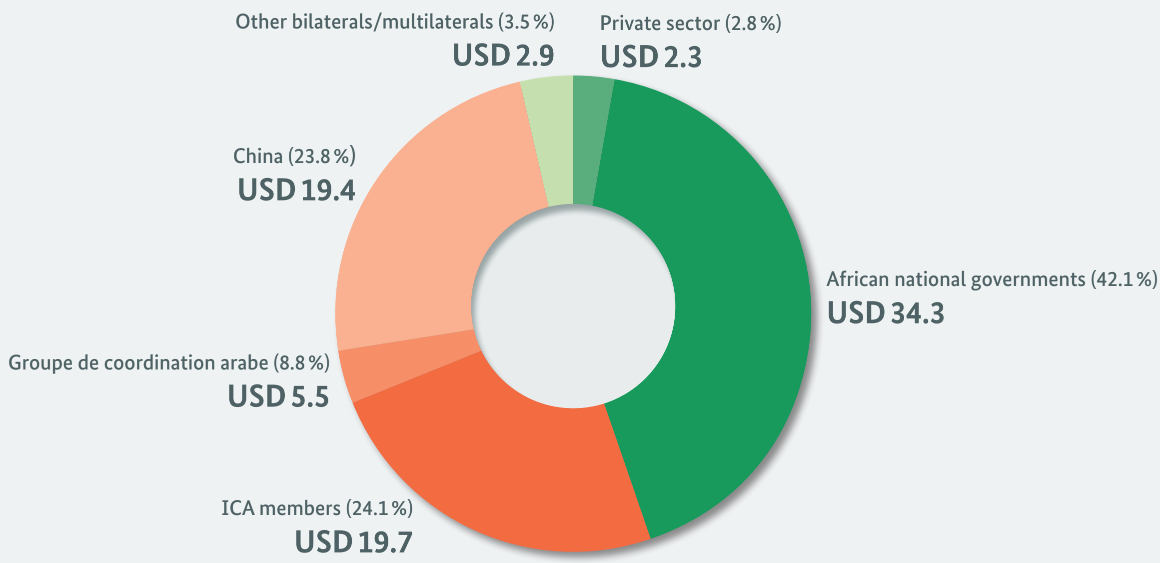
Like its African peers and emerging markets around the world, Côte d'Ivoire is held back by a lack of long-term investment. This section assesses the current funding gaps in the areas of infrastructure, housing finance, and SME finance to quantify the challenge at hand.

Infrastructure finance

Estimates for the Africa-wide infrastructure gap have increased dramatically. According to recent AfDB estimates, the annual infrastructure investment needs in Africa are between USD 130 billion and USD 170 billion. At the rate of current spending, this results in a funding gap of USD 68 billion to USD 108 billion per year.[15] The gap is significantly larger than previous estimates of USD 93 billion in investment needs and a resulting financing gap of USD 31 billion. The Infrastructure Consortium for Africa reports a decline in infrastructure commitments from a peak of USD 83 billion in 2013 to USD63 billion in 2016, dropping by 21 percent from 2015 to 2016 alone.[16] Infrastructure commitments regained momentum in 2017, increasing to USD 81.6 billion – mainly because of the increased contributions of African governments from USD 26.3 billion to USD 34.3 billion and of China from USD 6.4 billion to USD 19.4 billion, while the share of private sector commitments remained below 3 percent or USD 2.3 billion (figure 4.1).

The Global Infrastructure Hub (GIH) estimates the absolute infrastructure investment gap in Côte d'Ivoire until 2040 to exceed USD 50 billion.[17] The relative investment gap is largest for water infrastructure (USD 6.1 billion), but shortfalls exist across sectors such as roads, rail, airports, ports, and telecommunications, see table 4.1. Needs in the road sector are high because the large majority of the

FIGURE 4.1
Overall Commitments to Africa's Infrastructure in USD billions, 2017



Source: Infrastructure Consortium for Africa (ICA), "Infrastructure Financing Trends in Africa – 2016," 2017.

Note: ICA membership includes all G20 economies (G8 countries, plus Argentina, Australia, Brazil, China, European Union, India, Indonesia, Republic of Korea, Mexico, Saudi Arabia, South Africa, and Turkey). Membership on the African side is led by the African Development Bank, while the African Union Commission, the New Partnership for Africa's Development, and the Regional Economic Communities participate as observers in ICA meetings.

TABLE 4.1

Cumulative Infrastructure Investment Needs in Côte d'Ivoire, USD billions, 2016 – 40

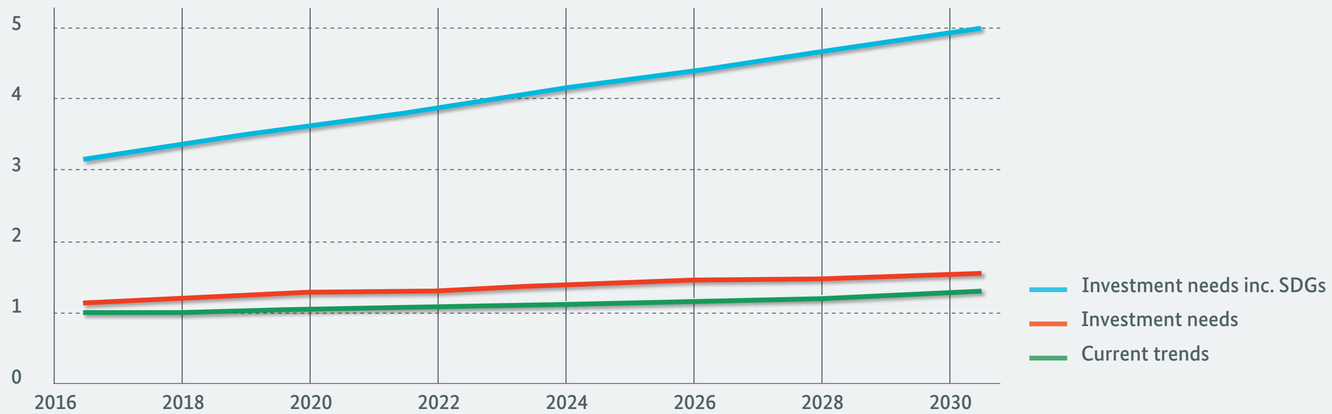
	Road	Rail	Airports	Ports	Telecoms	Electricity	Water	Total
2016 – 40 Current trends (CT)	27.3	2.9	0.9	0.5	17.2	3.1	13.3	65.2
2016 – 40 Relative investment need (RIN)	29.4	4.7	1.8	1.8	18.7	3.1	19.4	78.8
2016 – 40 Relative investment gap (RIN-CT)	2.1	1.8	0.9	1.3	1.5	0.0	6.1	13.6
2016 – 40 SDG requirement over and above RIN						21.9	16.0	37.9
2016 – 40 Absolute gap (RIN+SDG–CT)	2.1	1.8	0.9	1.3	1.5	21.9	22.1	51.5

Source: Global Infrastructure Hub and Oxford Economic, "Global Infrastructure Outlook," 2018.

Note: CT = current trends; RIN = relative investment need; SDG = sustainable development goals. All figures in USD billions, based on 2015 prices and exchange rates.

FIGURE 4.2

Relative Infrastructure Investment Needs and Absolute Investment Needs to Achieve the SDGs in Côte d'Ivoire, USD billions, 2016 – 30



Source: Global Infrastructure Hub and Oxford Economic, "Global Infrastructure Outlook," 2018. Note: SDG = sustainable development goals.

road network is still untarred, a condition that results in high ongoing maintenance costs. The estimates in the first three lines of table 4.1 demonstrate the relative investment needs were Côte d'Ivoire to match the performance of its best-performing peers. In other words, the estimates do not reflect absolute investment needs, which may in fact be considerably higher. The GIH also provides estimates for the financing required to achieve universal access to electricity, water, and sanitation in line with the SDGs, a better approximation of the absolute investment needs. When one takes these additional investments into account, the cumulative funding gap increases to USD 51.5 billion, with the largest gaps in the electricity (USD 21.9 billion) and water (USD 22.1 billion) sectors.[18]

The Africa Infrastructure Development Index (AIDA) places Côte d'Ivoire in the mid-range segment in Africa. The AIDA is an index developed by the AfDB that tracks the status and progress of infrastructure development across the continent using an assessment of the transport, electricity, information and communications technology (ICT), and water and sanitation infrastructure. In 2018, Côte d'Ivoire was one of the 10 top performers in increasing their AIDI scores, and the country's ranking improved from 26th to 24th place because of recent investments in ICT, water supply, and sanitation.[19]

Housing finance

The estimated unfulfilled demand for housing is large and increasing because of population growth, urbanization, and the reduction of the average household size. In the WAEMU, the housing deficit is estimated at 3.5 million housing units. An additional 800,000 units would need to be built per year were this deficit to be reduced to an acceptable level, according to the Affordable Housing Institute. The housing deficit in Côte d'Ivoire is estimated at 600,000 units, with an annual gap of 50,000 units. The need for new housing is most pronounced in cities, with a housing gap of 200,000 units in Abidjan alone.[20] In addition, the standard of the existing housing stock is low, thereby resulting in the need for investment to replace or upgrade the existing housing stock. Many dwellings lack basic amenities. Overcrowding is also a widespread phenomenon: one-third of housing in Abidjan suffers from overcrowding.[21]

Lending to the housing sector represents a very small proportion of bank lending. The share of housing loans in new bank loans hovered around 1 percent between 2012 and 2016. While there was an uptick in 2017 (3.1 percent) and 2018 (2.2 percent), the outstanding volume of loans to the housing sector is estimated at only 0.2 percent of GDP. [22]

Important factors that constrain the demand for housing are low levels of household income combined with the relatively short maturity of available housing loans (8 to 10 years). Indeed, the high price-to-income ratio has resulted in a decline of the rate of homeownership in Abidjan, from 18.8 percent in 2002 to 13.7 percent in 2015. The cheapest newly built house in Côte d'Ivoire costs USD 21,739, placing the country in the middle field compared with its African peers. However, taking into consideration household incomes in Côte d'Ivoire, less than 20 percent of urban households can afford to finance even the cheapest house.[23] On average, households in Abidjan spend 30 percent of their income on housing, and more than 75 percent are tenants. Although the nation has governmental programs to support housing, financing even low-cost housing is a challenge for households. An analysis of 75,000 loan applications undertaken by the Ivorian authorities revealed that over 60 percent of households may see their loan applications rejected by bankers and real estate developers. 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.

TABLE 4.2

New Lending to the Housing Sector

	2012	2013	2014	2015	2016	2017
FCFA billion	16.4	38.1	13.0	41.0	36.4	140.2
USD* million	28.1	65.4	22.3	70.3	62.5	240.6
As % of total new lending by banks	0.8	1.40	0.4	0.96	0.83	3.1

Source: Banque Centrale des États de l'Afrique de Ouest (BCEAO), "Rapport sur les conditions de banque dans l'UEMOA en 2017."

* Based on an annual average exchange rate of USD 0.00172 for 1 FCFA in 2017.

Enterprise finance

Given that larger firms have reasonably good access to bank financing, financing gap estimates tend to focus on SMEs rather than all firms. A study led by Entrepreneurial Solutions Partners (ESP)[24] puts the annual financial needs of the enterprise sector around USD 6.1 billion. Surveys by ESP and the International Finance Corporation (IFC)[25] estimate the SME annual financing gap in 2017 to be between USD 3.9 billion and USD 4.2 billion. According to the IFC, two-thirds of the financing needs of Ivorian SMEs remain unmet by the formal financial sector. The SME financing gap seems moderate, but this understanding may reflect varying assumptions concerning the size of the informal sector. Surveys often extrapolate the funding needs of informal SMEs on the basis of the proportion of their funding that is provided by formal suppliers, thus underestimating financing gaps because informal enterprises tend to have little or no access to formal financing except from microfinance institutions (MFIs).

In addition to financing constraints, SMEs face challenges in accessing finance that can best be addressed through provision of technical assistance. The previously mentioned ESP study states that 75 percent of surveyed SMEs indicated a need to receive technical assistance, but only 32 percent had received technical assistance over the previous three years. In the same survey, while firms note that access to finance is the greatest need, the priority areas in which technical assistance is required include support to financial intermediaries (a) in providing access to products and services more adapted to the needs of SMEs, (b) in shortening the time to process loan applications in response to SME financing needs, and (c) in disseminating better information on existing financial offerings.[26] The challenges relating to information asymmetry are also illustrated by the SMEs' low level of awareness of initiatives being promoted by the government to increase access to finance. As an example, only 6 percent of SMEs surveyed in the ESP study are aware of the reforms in the leasing sector introduced by the government.

Côte d'Ivoire's relative SME financing gap is somewhat lower than in neighboring countries such as Ghana and Nigeria. The IFC data indicate that the gap in Côte d'Ivoire corresponds to 7 percent of GDP, compared with 13 percent in Ghana and 33 percent in Nigeria.[27] The 2016 World Bank Enterprise Surveys show that urban, medium, and large enterprises in Côte d'Ivoire have better-than-average access to bank finance. By contrast, rural enterprises are four times less likely to have access to banking finance than are urban enterprises, and small enterprises (with fewer than 20 employees) are three times less likely to have access to banking services than medium-sized enterprises.

Fifty-eight percent of total SME funding needs are estimated to be medium to long term, aiming to finance capital expenditures.[28] It is that gap in financing capital expenditures that SMEs find most difficult to bridge. For smaller SMEs, the only medium- to long-term loans available are rolled-over short-term credits or overdrafts. Typically (in 60 – 70 percent of cases), 14-month loans (including a 2-month grace period) are renewed by micro finance institutions. According to the latest World Bank Enterprise Survey, 69 percent of Ivorian SMEs find access to finance to be a major constraint, compared with 39 percent across Sub-Saharan Africa. In 2016, after years of strong growth, bank lending to enterprises in Côte d'Ivoire, including loans to professionals and to individual entrepreneurs, represented a decreasing proportion of new bank loans.

4.2 Sources of Long-Term Finance in Côte d'Ivoire

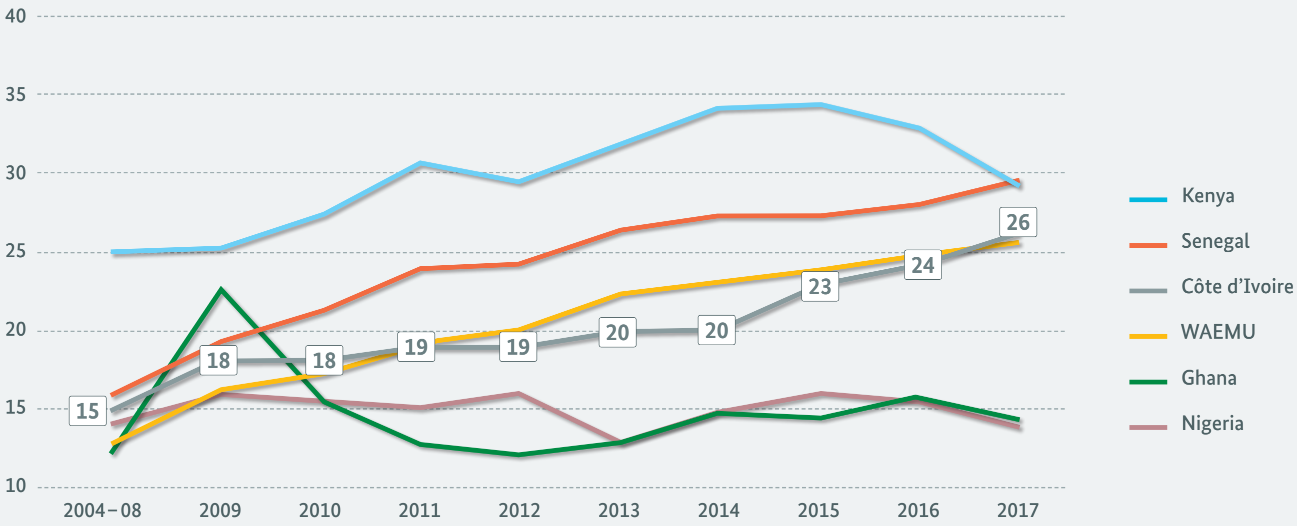
This section reviews the different segments of the Ivorian financial system and their contribution to providing long-term financing to the economy. The main sources of finance include bank finance, capital market finance, private equity and mezzanine finance, leasing and factoring, and microfinance. This section reviews the availability of financing from those sources for the purpose of infrastructure, housing, and enterprise finance. As this section illustrates, in terms of the funding escalators Côte d'Ivoire finds itself still largely reliant on the government and donors, supplemented with funding from banks and international investors for the financing of infrastructure projects (step 3 of the infrastructure funding escalator). Local public capital markets play an insignificant role. Long-term funding for enterprises is extremely scarce, and firms continue to rely a great deal on funding from family and friends and to a lesser extent from banks, while microfinance institutions are playing an increasing role. Altogether, while the banking system plays a dominant role in the Ivorian financial system, the willingness of banks to provide long-term lending is highly constrained. This situation is partly an outcome of risk aversion on the part of banks, but it also reflects limitations on the maturity transformation that banks are allowed to undertake according to the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO) regulations, as will be discussed further.

The importance of moving up the funding escalators is accentuated by the ongoing tightening of banking regulations. As in other countries in Africa, banks are unwilling to lend to infrastructure projects beyond a maturity of about seven years, a much shorter duration than the expected productive life of such investments. As described in this section, BCEAO is in the process of tightening its banking regulations following changes made globally after the international financial crisis in 2008 – 09, and the likelihood is that the immediate impact of those changes will be to constrain long-term lending by banks and to constrain loans to the SMEs deemed riskier, which will have to turn to other financing mechanisms like mesofinance or microfinance. On the other hand, strengthening the regulation and oversight of the banking system will increase its resilience to shocks and thereby strengthen its soundness and capacity to service the economy's long-term financing needs going forward. The regulatory changes could also serve to emphasize the importance of developing nonbank financing channels – that is, moving up the funding escalator by increasing the contribution of the domestic capital markets as a source of investment finance.

Banking sector

Côte d'Ivoire's financial markets have deepened in recent years, driven by the banking sector. As of 2017, the availability of credit to the private sector stood at 26.5 percent of GDP. Although credit to the private sector

FIGURE 4.3
Domestic Credit to the Private Sector as Percentage of GDP, 2004 – 17

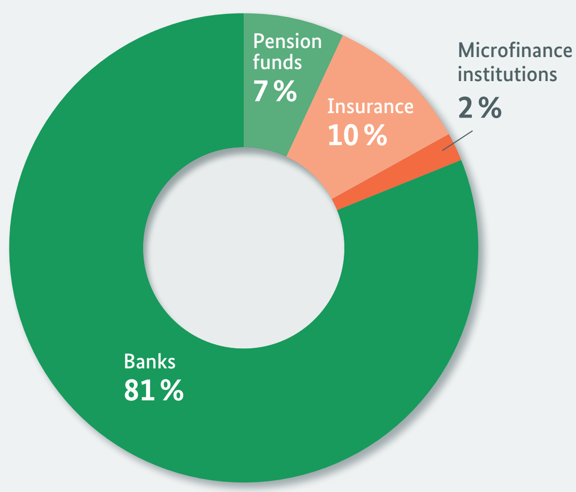


Source: International Monetary Fund, *Regional Economic Outlook (Sub Saharan Africa)* (Washington, DC: IMF, October 2017).
Note: Numbers in the graph refer to the ratio of credit to gross domestic product (GDP) for Côte d'Ivoire; WAEMU = West African Economic and Monetary Union.

is slightly higher than for the WAEMU region as a whole (25.7 percent), the provision of credit to the private sector is still significantly lower than in the next-largest economy within the monetary union, Senegal (with 39 percent of GDP) (figure 4.3). Since 2015 public and private investment activity has been on the same level as Kenya (20 percent of GDP) and has compared well with Ghana and Nigeria (both around 15 percent of GDP).

As in many countries in Africa, in Côte d'Ivoire the assets of the financial sector are heavily concentrated in the banking sector, constituting 81 percent of systemwide financial assets (figure 4.4).[29] At end of 2015 assets of the banking, insurance, and pension sectors combined were USD 10.8 billion.[30] As yet capital markets play a minimum role in the provision of finance. On the other hand, in the infrastructure sectors the government is involved in the majority of long-term financing transactions either as the direct source of funding or as a guarantor, facilitator, or off-taker. The growth in bank lending has been fueled by the sustained economic expansion, a benign inflation environment, and a significant increase in deposit mobilization. In recent years, the proportion of bank lending with maturity above five years has remained unchanged (around 4 percent), while lending in the two- to five-year category has increased (from around 30 percent to 39 percent) (figure 4.5). However, it appears that much of

FIGURE 4.4
Distribution of Financial Sector Assets



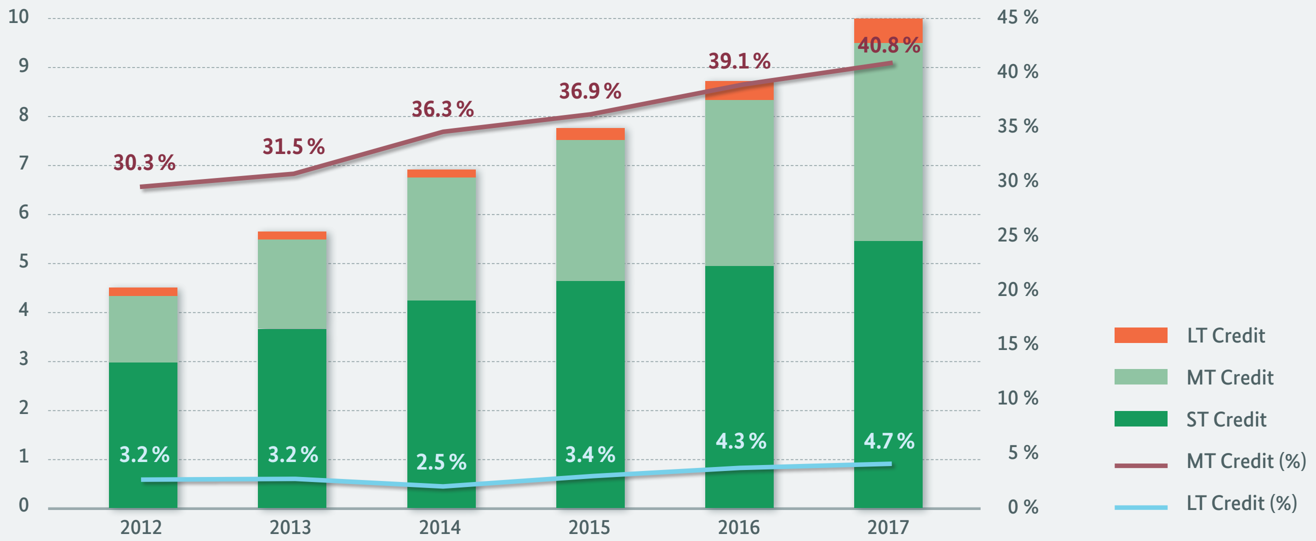
Source: Banque Centrale des États de l'Afrique de Ouest (BCEAO) end-2015 figures (from IMF, "Côte d'Ivoire: Selected Issues," Country report 16/148, June 2016).

the increase in two- to five-year lending has taken the form of salary-based consumer lending to formal sector employees rather than the funding of productive investments.

Institutional investors

Institutional investors (life insurance and pension funds) together account for 17 percent of financial system assets, with considerable potential for growth. Insurance premium incomes are equivalent to only 1.5 percent of GDP. The growth of pension funds is hampered because the dominant share of the population works informally. Of more than 8 million active participants in the labor market, only 1 million participate in the formal pension system. In contrast to pension schemes in countries such as Kenya (USD 9.8 billion), Morocco (USD 25.7 billion), and Nigeria (USD 20.1 billion), which have accumulated significant assets under management in recent years,[31] pensions in Côte d'Ivoire are paid on a pay-as-you-go basis through mandatory deductions from the salaries of the active population. However, because of the favorable demographic situation – hardly 3 percent of the population is currently above the age of 65 – and parametric reforms undertaken in 2012, it is anticipated that Caisse nationale de Prévoyance Sociale (CNPS), the defined benefit pension fund for private sector employees, will continue accumulating considerable surpluses over a number of years that could fund long-term investments. CNPS's portfolio of financial assets amounted to FCFA 250 billion (USD 430 million) at the end of 2017. Despite the parametric reforms undertaken in 2012, similar expectations of accumulated surpluses do not apply to Caisse Générale de Retraite des Agents de l'Etat (CGRAE), the pay-as-you go pension fund for state civil servants. This difference is due to factors such as early retirement, higher pensions, and irregular transfer of contributions to CGRAE by the government. Given the savings needs of the Ivorian economy combined with contingent fiscal liabilities associated with underfunding of CGRAE, further parametric reform (addressing factors such as the retirement age and the level of pension

FIGURE 4.5
Development in Maturity of Bank Lending in Côte d'Ivoire, in USD billions



Source: Commission Bancaire annual reports.

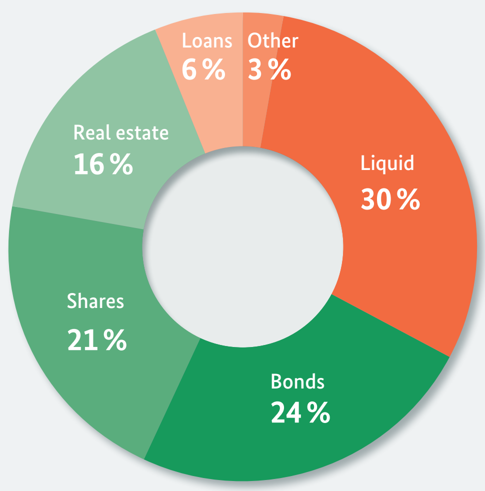
Note: Percentages refer to the share of medium-term and long-term credit in bank lending. Long-term (LT) credit is defined by Banque Centrale des États de l'Afrique de Ou (BCEAO) as bank lending with maturity above five years; medium-term (MT) credit as two to five years, and short-term (ST) credit as below two years.

commitments) of the CGRAE would appear a high priority. It is also worth considering whether the funding of pensions systems in Côte d'Ivoire should remain on a pay-as-you-go basis or shift to fully funded schemes as is the case in the comparator countries cited here.

While insurance companies and pension funds invest directly in real estate and quoted equity, they do not participate in the corporate bond market or in project finance transactions (see figure 4.6). As yet they do not have the experience, regulatory mandate, and risk appetite to make investments in corporate bonds or public-private partnerships (PPPs). Institutional investors could play an important role in "taking out" banks that have acted as lenders in the construction phase of infrastructure projects but are unable to provide longer-term finance because of the implied maturity mismatch between their short-term liabilities and the long-term commitments required of infrastructure investments.

Local institutional investors hold a significant portion of their assets as term and savings deposits with banks. Although such high-yielding term deposits account for about 40 percent of bank deposits rather than being term commitments, such deposits are de facto short-term ones.

FIGURE 4.6
Portfolio of Côte d'Ivoire Insurance Companies, 2016



Source: Fédération des Societés d'Assurances de Droit National Africaines (FANAF), Marche de l'Assurance en Afrique, 2012–2016 (Dakar, Sénégal: FANAF, 2018), http://fanaf.org/article_ressources/file/AG-2018-KIGALI/Statistiques/Brochure_sur_les_marches_2012-2016-VF.pdf.

Note: Total assets under management of the insurance sector amounted to FCFA 689 billion (USD 0.2 billion).

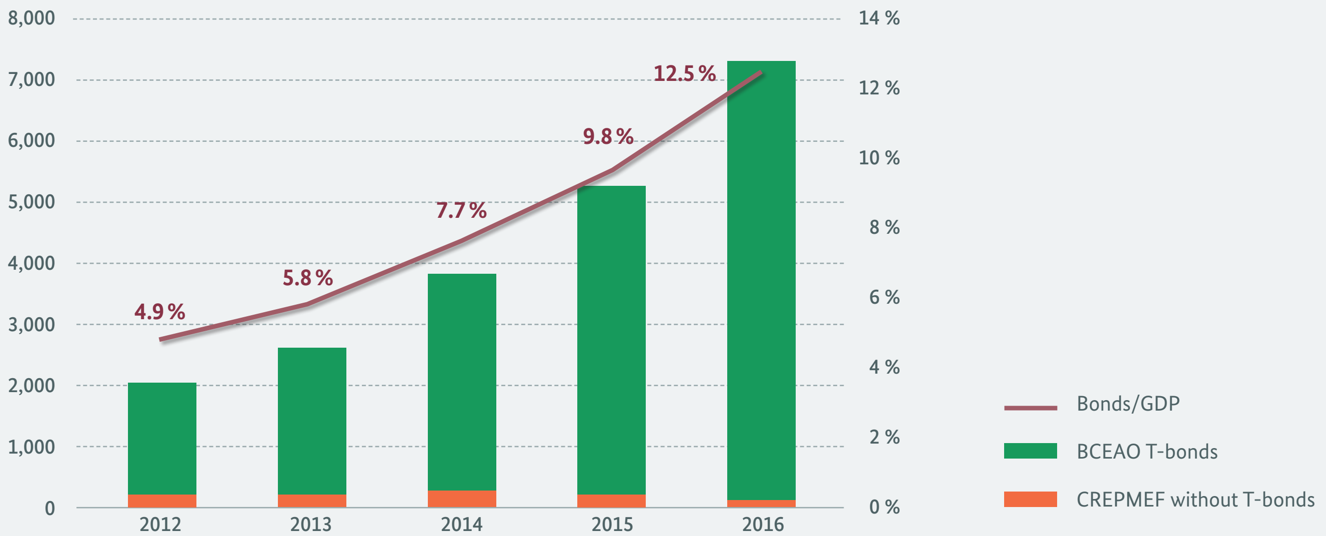
Instead of investing long-term savings into long-term investments, institutional investors thus contribute to reverse maturity transformation, from long-term to short-term. One way of addressing this situation would be to encourage banks to issue corporate bonds, as discussed in section 6.2.

Capital markets

As in many African countries, the stock exchange serving Côte d'Ivoire is small, even though it is a regional exchange servicing the WAEMU region. Regional capital market architecture includes the capital markets supervisor, the Conseil Régional de l'Épargne Publique et des Marchés Financiers (CREPMF); the regional stock exchange, Bourse Régionale des Valeurs Mobilières SA (BRVM),[32] the regional clearing house, Dépositaire Central/Banque de Règlement (DC/BR); and a regional platform set up in 2013 for the issuance of government Treasury bonds and bills (Agence UMOA-Titres), which is administered by BCEAO. Only banks with access to BCEAO's clearing and settlement system have direct access to the auction of Agence UMOA-Titres. Other parties wishing to participate have access through banks. The fragmentation of the market for sovereign bond issuance may be limiting competition, thereby driving up the cost of government borrowing. Currently, the Ivorian government depends for about half of its financing on syndicated bonds issued on the regional stock exchange as syndicated issues through local brokers/primary dealers that attract individual and institutional investors, while the other half of the government's financing is arranged through Agence UMOA-Titres, which are bonds and T-bills auctioned to banks.

In recent years, bond issuances within the WAEMU subregion have been dominated by national governments, and the overall size of bond issuance in WAEMU has grown from 4.9 percent of GDP in 2012 to 12.5 percent in 2016 (figure 4.7).[33] As of the end of 2016, as much as 40.7 percent of the outstanding WAEMU government bonds had been issued by the Ivorian government. Banks are the largest investors in government bonds. Ivorian banks invest between 10 and 15 percent of their assets in Treasury bonds but rarely trade them. Whether issued by the Ivorian government or by other WAEMU governments, banks invest mostly through BCEAO's auction and settlement system. Other institutions, corporations, and mutual funds only have access to Treasury bonds through the BRVM platform. This market segmentation is a major hindrance to market deepening, as it segments market liquidity and potentially adds to funding costs.

FIGURE 4.7
Outstanding Bonds in the WAEMU Market in USD billions, 2012 – 16



Sources: CREPMEF (Conseil Régional de l'Epargne Publique et des Marchés Financiers) and BCEAO (Banque Centrale des États de l'Afrique de l'Ouest) annual reports. The Bonds/GDP data refer to GDP of the WAEMU region

Note: The data in the figure includes both bonds auctioned by UMOA-Titres (government issued) and bonds listed on the BRVM (Bourse Régionale des Valeurs Mobilières SA). GDP = gross domestic product; T-bonds = Treasury bonds; WAEMU = West African Economic and Monetary Union.

Corporations find issuance of equity and bonds on the exchange to be less attractive because of (a) the competitive interest rates offered by banks to those companies that reach the critical size to be able to access the bonds market, (b) the disclosure and governance requirements imposed by CREPMF, (c) the high issuance costs associated with preparation of a prospectus and other issuance materials,[34] in addition to brokerage fees and other costs, (d) the lapse of time in gaining authorization to make an issue, and (e) the relatively cumbersome process of arranging the listing with CREPMF using a syndicate of intermediaries. Altogether these factors make issuance of securities relatively unattractive compared with bank financing. Nonetheless, over time issuance on the capital market could prove to be attractive to enterprises as a means of diversifying the source of funding and providing competition to interest rates offered by banks. Forty-five firms, of which 34 are from Côte d'Ivoire, are currently listed on BRVM. However, total market capitalization of shares listed across the WAEMU amounts to FCFA 5.4 trillion (equivalent to USD 9.1 billion), only a 10th of WAEMU's GDP.[35] In addition, as of the end of 2017, 37 bonds were listed on the BRVM.

In March 2018 BRVM announced the creation of an SME board with less restrictive criteria, dropping, for example, the requirement that SMEs provide a rating and that they be able to provide company financial records for a minimum of two years and also lowering the minimum equity requirement to only FCFA 10 million (USD 18,000). Ten companies from Côte d'Ivoire and other WAEMU countries have been preselected to undergo training to prepare them for investor-readiness. Even assuming this initiative is successful, initial public offerings (IPOs) are likely to remain an anecdotal source of Long-Term Finance for Ivorian SMEs in the near future. Experience globally with such SME markets has been disappointing, and a more practical approach may be to encourage funds investing in SMEs to raise capital by listing on the BRVM. See further discussion in the example of Compagnie Financière Africaine (COFINA) in box 4.1.

The stock market demonstrates very low levels of liquidity. In 2016, the volume of equity transactions on the regional market totaled approximately FCFA 400 billion (USD 0.7 billion) – that is, less than 1 percent of WAEMU's GDP. Corporate bonds have been issued by some local banks and specialized financial intermediaries (such as Oragroup, Shelter Afrique, SIFCA, and recently Senelec), but their outstanding value is small compared with government bonds. More promising is the emergence of a new regional bond issuer to support housing finance, the Caisse Régionale de Refinancement Hypothécaire (CRRH-UEMOA), which since its inception in 2012 had issued seven bonds by early 2018 (see further discussion in chapter 6). In recent years there have also been a number of private placements.[36] As on other small African exchanges, the share turnover velocity (the percentage of shares traded during any one month) on BRVM is low at 7 percent compared with 30 percent and 55 percent on the Johannesburg and London stock exchanges, respectively.[37]

An important factor contributing to the lack of liquidity on the secondary market is the dysfunctionality of the money market. In December 2016, BCEAO took steps to stem this dysfunctionality by tightening liquidity in the banking system and by instituting borrowing caps that restrict banks' access to rediscounting sovereign securities. Although the transaction volumes on the interbank market were reported to have doubled in 2017, transaction volumes on this market remain small, and some large banks hold a liquidity surplus while the system as a whole appears to be in deficit.

Given the relatively small size of the WAEMU capital market, much depends on resolving the challenges associated with establishing liquid government benchmark issues that can provide guidance on pricing to potential private sector issuers. Due to the fragmentation of the government securities market and the dysfunctionality of the money market secondary market, liquidity is very shallow and as a result investors adopt a buy-and-hold strategy. Establishing a benchmark for WAEMU government bonds is challenging for several reasons. First, there is a lack of standardization of bond structures with different forms of amortization and payment periodicity – that is, some issues involve bullet repayments while others are amortizing, so yields across similar issues are not readily comparable. This gives rise to diverging valuations of similar existing issuances, a condition that hampers liquidity on the secondary market and the development of a benchmark yield curve. Second, the two issuance platforms (auctions through UMOA-Titres and syndications, regulated and supervised by CREPMF and listed by BRVM) lead to a compartmentalized market. Similar government securities issued on the auction and syndicated markets are not fungible, a situation that can give rise to inconsistent pricing.

BOX 4

First Bond Issuance by Compagnie Financière Africaine (COFINA)

The placement of the first bond issuance by Compagnie Financière Africaine (COFINA) in May 2018 provides a useful example from the BRVM. This bond issuance has a maturity of 18 months and yields 7.5 percent. It is based on the securitization of small- and medium-sized enterprise (SME) receivables in Côte d'Ivoire and Senegal. Security is provided in the form of overcollateralization (coverage of 130 percent) and a reserve account equivalent to 6 percent of receivables. In part, the high growth rates experienced in COFINA's SME lending funded on the bond market can be attributed to constraints recently imposed by Banque Centrale des États de l'Afrique de l'Ouest on banks in the form of augmented capital requirements (Basel II and III) combined with interest rate caps (15 percent) imposed on bank lending. By comparison, the first round of loans made by COFINA bears an interest rate of around 20 percent.[a]

a Microfinance institutions (MFIs), such as the companies belonging to the COFINA Group, are not subjected to the same regulatory constraints as banks are. Caps on interest rates on loans offered by MFIs are set at 24 percent in the West African Economic and Monetary Union.

The market for nonsovereign issues on BRVM is quite small – other than for issues made by financial institutions – with the emphasis being on private placements. There is only one publicly traded nongovernment bond outstanding, issued by the Senegalese electricity company. Private placements of corporate bonds have had more success (entities such as Azalai, Petro Ivoire, and CFAO). Gaining sufficient investor interest in private placements has proved difficult when investors have been worried by instances of crowding out by simultaneous issuance of sovereign debt and by credit risk concerns arising because the issuers have been unable to achieve sufficiently high credit ratings. Also, the longer (such as seven-year) maturity of the issues has given rise to credit risk concerns. COFINA provides an example of a recent corporate issue used for the financing of SMEs (box 4.1).

Leasing and factoring

Banks have been able to maintain their dominance of the lending market relative to other players such as leasing companies because of their access to relatively cheap deposits. Currently leasing is offered by only two companies that struggle to compete with banks because they fund themselves at 8 percent for medium-term maturities on the wholesale market (that is, at 200 basis points above the interest rate on government bonds), whereas banks and MFIs are able to obtain funding at an average interest rate of 1.8 percent.[38] Recent revisions to the leasing law (in December 2017) make it easier to repossess movable assets, provided they are registered with the companies and the movable assets registry. The revised law also improves the tax treatment of leased assets by accelerating amortization for tax purposes. Nonetheless, significant capacity and systems development will be needed if banks and MFIs are to become active on this market, which is currently dominated by leasing contracts for automobiles rather than by the capital investments of Ivorian enterprises.

Factoring is offered by some banks on a small scale, but it is not yet well developed within the WAEMU, while discussions continue to develop a uniform law to foster market development. Challenges to overcome include a lack of trust in government-related payees (due to nonperforming loans that result from unpaid government obligations), high risks of fraud, and lack of capacity among banks.

Private equity and mezzanine finance

As on other emerging markets, the focus of private equity investors is primarily on larger enterprises that are already relatively well serviced by the banking sector. In contrast, small enterprises are less attractive to private equity managers because of the additional resources required both in assessing the viability of a larger number of small prospective investee enterprises and in mentoring and monitoring many small investee enterprises. A further complication is that owners of small enterprises are less likely to be willing to relinquish control to external shareholders. Private equity funds are taking advantage of the opportunity arising from the revised prudential standards introduced by BCEAO to undertake subordinated debt and equity investments in banks and nonbank financial institutions.[39] A few recently established funds financed by impact investors also target SMEs.[40]

While most entrepreneurs in smaller firms tend to resist the intrusions of an outside equity partner, they are much more amenable to debt, even when it is structured as a mezzanine instrument with characteristics that are similar to equity. Mezzanine financing incorporates elements of debt and equity in a single investment. The more debt-like mezzanine instruments are partially uncollateralized longer-term loans. The more equity-like instruments involve equity with some sort of self-liquidating mechanism, often in the form of loans in which the interest rate rises and falls with the portfolio company's revenue. Experience on such mezzanine financing is provided by GroFin (funded by the Shell Foundation and other investors), which is active across a number of African countries and set up operations in Abidjan in April 2017.

Microfinance

The microfinance sector (known as systèmes financiers décentralisés, SFDs) is a small but growing provider of medium-term finance to households and both formal and informal SMEs. As of the end of 2016, the microfinance sector's total assets constituted little more than 2 percent of the total value of financial sector assets. As of December 31, 2017, 32 licensed microfinance institutions together had a credit exposure of FCFA 248 billion (USD 421 million).[41] In recent years the SFD sector has staged a recovery and by mid-2019 the Association Professionnelle des Systèmes Financiers Décentralisés (APSFD) had approved licenses for 50 SFDs. SFDs offer financing to entrepreneurs ranging from very small amounts up to FCFA 150 million (USD 255,000), and even as large as FCFA 300 million (USD 510,000) for the largest ones. SFDs serve Côte d'Ivoire's entrepreneurs in both the formal and informal sectors and are spread throughout the country. The terms and conditions of the loans vary according to their structure and size. However, interest rates are generally higher than those charged by commercial banks.

MFIs are uniquely positioned to play a greater role in servicing SMEs because of their proximity to their clients and their greater flexibility in tailoring the range of products they provide. To increase their outreach to the SME sector, MFIs will need to continue to build more agile organizations with strong and efficient risk management skills, assisted by improvements such as innovative and robust credit scoring instruments and strengthened corporate governance.

The growth of the sector was stalled because of the failure of the largest MFI, UNACOOPEC, which was put under the BCEAO Banking Commission's administration in 2013 with no clear exit strategy. In the meantime, new institutions have grown to take its place. Since 2010, six new MFIs (the largest being Microcred, Advans CI, and COFINA) have started operating, and their combined balance sheets were five times larger than UNACOOPEC's declining portfolio at the end of 2016. Despite the recent rapid expansion of Côte d'Ivoire's MFI sector, it remains relatively small compared with that of other countries within the subregion.

4.3 Uses of Long-Term Finance in Côte d'Ivoire

Infrastructure finance

Private sector investors in infrastructure premise their commitment on mitigating political risk through partial risk guarantees provided by development finance institutions and multilateral development banks. The limited number of guarantees granted severely limits the extent of the private sector's involvement. Alleviating this constraint depends on strengthening the institutional independence and governance of infrastructure service providers.

Private finance for investment in energy sector projects largely depends on the availability of public risk mitigation instruments. Where there is concern about a potential breach of contract or of the borrower not honoring the financial obligations in the off-take agreement, political risk mitigation – whether in the form of a guarantee, insurance, or take-out facility – is essential to unlocking financing from both international and domestic lenders. A limited number of international and domestic commercial banks have participated as lenders to independent power projects (IPPs). However, multilateral development banks and development finance institutions have provided most of the debt financing required by these infrastructure projects. Development finance lenders often require a guarantee of the Ivorian government so as to provide assurance of the performance obligations of the majority state-owned utility (CI-Energies).

In other infrastructure sectors, such as the transport sectors, the policy and regulatory frameworks are less well developed and tested than in the power sector. As in the power sector, multilateral development banks and development finance institutions are the principal sources of long-term financing for PPP projects. Here, political risk mitigation is even more essential to unlocking financing from both international and domestic lenders. Air Côte d'Ivoire, as a majority state-owned enterprise, is using both blended finance and risk mitigation instruments (partial risk guarantees from the AfDB) to create "bankable" projects in order to be able to leverage private sector finance in the aviation sector.

The participation of domestic banking institutions largely focusing on IPPs is primarily limited owing to their inability to offer long-term financing as a result of the implied maturity mismatch. Another constraining factor is inadequate familiarity and experience with limited recourse project finance transaction structures. This situation is likely to become more accentuated by the introduction of Basel II and III requirements. Domestic banks are constrained by the overall size of their funding base as well as maturity mismatch concerns and are generally unable to provide funding for maturities in excess of seven or eight years.

Further deepening of the Ivorian market is needed to provide the maturities and financing volumes required for large infrastructure transactions. First, in terms of the tenors offered, the loans provided by the Ivorian banks fall short of the economic lives of the investments undertaken in the infrastructure sector, where loan tenors need to be a minimum of 12 years to over 15 – 20 years. Second, the commercial bank market, while liquid, may well lack the scale to support the financing of large infrastructure projects. Finally, the risk premium associated with interest rates in Côte d'Ivoire is often viewed as too high compared with interest rates in the euro, despite the peg in place between the CFA franc and the euro.

Private participation in infrastructure projects in Côte d'Ivoire is largely concentrated in the power sector but has been constrained by the creditworthiness of the government-owned off-takers. In the power sector, the legal and regulatory framework for private sector investment in electricity has supported private participation in IPPs since the early 1990s and Société des Energies de Côte d'Ivoire (CI-Energies), the state-owned company responsible for managing public assets in the electricity sector and the power off-taker, has developed a good track record of repayment. Yet CI-Energies is not regarded as a creditworthy borrower on a stand-alone basis because of a lack of cost-reflective tariffs, inefficient power production, and an inability to collect payments from its public clients. As a result, private lenders require the government to backstop CI-Energies' power purchase agreements with performance guarantees to ensure repayment of their debt.

Enterprise finance

Almost all formal third-party funding to nonfinancial enterprises is provided by banks and MFIs. While traditional banking products are available to most formal enterprises, legal, financial, and business environment factors limit the depth and availability of other products and services. Alternative sources of finance, including private equity, equity and corporate bond markets – even factoring and leasing, currently offered by only two nonbank financial institutions – play only a marginal role in Côte d'Ivoire. Leasing and factoring are still niche products but have the potential to enhance their contribution to enterprise finance (see further discussions in chapter 6). Microfinance is currently the only route to formal financing for informal businesses, and while this funding is nominally short term (with an average maturity of 14 months), a large proportion (60 to 70 percent) of MFI loans are rolled-over at maturity.

There is a stark dichotomy on the Ivorian market for long-term financing of enterprises. On the one hand, large corporations benefit from easy access to medium- and Long-Term Finance at relatively low interest rates. These companies operate largely in the telecommunications, distribution, and oil and gas sectors, in the trading of cocoa, coffee, and cashews, and in utilities, breweries, and so on. Loans of more than FCFA 100 billion (USD 175 million) to large greenfield projects in these sectors, in which the borrower does not have recourse to a foreign sponsor, have been successfully syndicated by groups of banks at interest rates and maturities similar to 10-year government bonds.

On the other hand, SMEs rarely have access to funding beyond three years' maturity. Banks are reluctant to provide SMEs with longer-term finance because of the lack of reliable financial documentation (accounts, tax records, business plans), exposure to key personnel risk (to the enterprise owner or founder), and the unavailability of reliable security as well as delays associated with the realization of collateral. Banks tend to favor short-term lending because assessing, originating, monitoring, and recovering long-term loans is costlier and because longer-term loans generate less ancillary income in the form of services fees. There also seems to be limited competition among banks in expanding their term lending to SMEs: only a few larger banks actually monitor and model the stickiness of their deposits and their maturity gaps. Another factor that may limit the willingness of banks and MFIs to lend to SMEs is the usury interest rate ceilings (15 percent for banks and 24 percent for MFIs) introduced by BCEAO in 2014.

In 2015 BCEAO set up the SME Financing Facility to support the availability of funding for SMEs, but limited information makes it difficult to assess outcomes. The SME Financing Facility is structured around three pillars:[42] (a) incentives offered by BCEAO to financial institutions – mostly through refinancing, favorable risk weighting for qualifying SMEs, and capacity-building. These incentives resulted in the reduction of the percentage of the risk weighting of loans to SMEs from 100 percent to 75 percent as of January 1, 2018; (b) support for SMEs and SMIs (small and medium-sized industries) to be provided in the form of business development services; and (c) policies promoting SMEs/SMIs by member states. While the initiatives supported by this SME Financing Facility would appear to be quite comprehensive, there seems to have been little follow-up in the form of implementation oversight and results monitoring, thus it is difficult to assess the outcomes.

Housing finance

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, 7.4 years – similar to that of other countries in the WAEMU.[43] 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.[44]

One of the major constraints resides on the housing supply side. In addition to the issues relating to the registration of property (discussed later), only 10 of about 25 licensed Ivorian housing developers are considered to be professional. The largest developer is SICOGI, a state-controlled corporation with private minority shareholders. SICOGI delivers between 500 and 800 housing units per year.

In total, developers produce fewer than 4,000 units per year.[45] Many developers, including SICOGI, are financially weak. For developers that cannot access bank credit easily, presale 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 million to 70 million (USD 85,000 to USD 120,000), and only very small developers are active in the affordable segment below FCFA 20 million (USD 35,000).

Furthermore, because of the dominance of informal employment, the perimeter of potential borrowers that mainstream banks would consider to lend to is limited. In 2015, there were fewer than 3 million salary recipients in Côte d'Ivoire, of which only about 600,000 were formally employed.[46] While microfinance 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 have prevented them from playing a significant role in long-term lending to the housing sector.

Looking at the bigger picture, there are structural hindrances limiting the availability of Long-Term Finance in Côte d'Ivoire. These relate in part to macroeconomic policy and the government's financing requirements as well as to regulation of the banking system, all of which affect the deepening of the domestic market for Long-Term Finance. In addition, a number of structural reforms will be crucial to developing the domestic market for Long-Term Finance: improving the efficiency of land titling and property registration, adopting government policies on affordable land and housing, increasing the sharing of credit information and the availability of partial credit guarantees, and adopting a framework for development finance and private-public partnerships. This section discusses these key macropolicy and structural issues across sectors and sketches out possible solutions.

5. Factors Limiting the Availability of Long-Term Finance

5.1 Government financing and crowding out Long-Term Finance

The government is highly dependent on banks for funding its fiscal needs. Starting in 2013 the BCEAO allowed banks to draw on liquidity provided by BCEAO at an interest rate 2.5 percent so as to refinance government securities with maturities of greater than five years that yield about 6 percent. This step provided banks with the opportunity of funding purchases of long-term government securities with seven-day low-cost loans from BCEAO. "Round tripping" of this kind provides risk-free income to the banks without any capital charge, because government securities enjoy a 0 percent risk weighting with regard to capital adequacy. Since December 2016, BCEAO has endeavored to retract central bank liquidity by raising the cost of accessing the BCEAO's credit facility from 3.5 percent to 4.5 percent and by limiting banks' access to its credit facility to twice their regulatory capital. However, banks have found it difficult to reduce their holdings of government securities, given limited secondary market liquidity.[47] Even with the raised borrowing cost, banks are able to borrow at 4.5 percent to finance government bonds priced between 5.5 percent and 6.0 percent, and interest rates for bonds issues by other governments within the WAEMU area are generally higher. In diversifying their sources of finance the governments of Côte d'Ivoire and Senegal (as those countries with the largest domestic financial systems within WAEMU) have in recent years placed greater reliance on borrowing from the eurobond markets to finance their fiscal deficits.[48]

The dependency on financing the government deficit through banks places a severe constraint on the availability of Long-Term Finance to the private sector. The June 2018 IMF Article IV assessment refers to the risks associated with fiscal dominance and the need to pursue prudent fiscal and borrowing policies to reduce the budget deficit and create fiscal space to provide adequate resources for infrastructure outlays.[49] Altogether, the government's fiscal policy and reliance on domestic borrowing provide relatively more attractive opportunities to local financial institutions than does lending to the real economy; thus the availability of Long-Term Finance to the private sector is severely constrained.

5.2 The regulatory framework and the soundness of the banking sector

In June 2016, the Council of Ministers of the WAEMU adopted a set of reforms to the prudential framework for banks with a view to gradually transitioning from Basel I to the Basel II and III regulatory regimes during a transitional period lasting until 2022. The main elements of these reforms are summarized in box 5.1. Clearly, a key factor in implementing these reforms will be the allocation of sufficient resources to the Banking Commission so that it is able to perform its enhanced supervisory role efficiently, particularly because there are several already-existing prudential ratios, such as the minimum capital requirement and the limit on large single exposures, that banks in WAEMU find difficult to observe. Over time applying stronger prudential standards to banks, provided they are enforced, will lead banks to strengthen their business and risk management practices and therefore to produce sounder and more sustainable growth, particularly in their long-term lending.

Nonetheless in the short term these prudential reforms seem to be reducing the risk appetite of the banks. Between 2015 and 2017 there was a sharp fall in credit expansion, from nearly 30 percent to the healthier pace of about 13 percent. This drop may be explained by the increase in the average capital adequacy of Ivorian banks from 8.0 percent to 9.8 percent that took place from end-2016 to end-2017. Banks appear to have been anticipating the impact of the gradual increase in required capital that BCEAO had announced would take place over the five-year period from January 2018 to the end of 2022. Nearly all Ivorian banks are expected to have to raise additional capital to be able to live up to the prudential requirements. Most banks are likely to lower dividend distribution as one way to comply with new regulations. The tightening of the regulatory regime should also encourage banks to use capital market funding vehicles, including issuing subordinated debt.

In addition to the tightening of regulations, the need to raise capital may be affected by the need to recognize larger loan-loss provisions due to underreporting of nonperforming loans (NPLs). Although the ratio of NPLs to total loans fell marginally from 9.9 to 9.3 percent from end-2017 to end-2018,[50] the actual level of NPLs may well be higher. That is because of recent rapid loan growth that camouflages the level of loan nonperformance, which will only occur as loans age, and because the older stock of NPLs was transferred to public sector entities and may not be recorded as nonperforming, as these obligations are treated as being guaranteed by the government.[51]

The capacity of MFIs to significantly contribute to meeting the economy's long-term funding is constrained by both the limited size of their balance sheets and their financial fragility. Integration of the largest MFIs into a specific prudential framework was mandated by law in 2011 and has progressively been inserted in WAEMU member countries' national legal systems. The law is now in force in Côte d'Ivoire and places MFIs above a certain size (FCFA 2 billion, about USD 3.5 million, of credits or deposits) under the oversight of the Banking Commission. Weaknesses in the Ivorian MFI sector are pervasive. The average solvency ratio was only 4.5 percent in 2016. Of 18 MFIs, only 7 met

BOX 5.1

Main Changes to the Prudential Regulation of Banks

- Capital adequacy requirements are increased. By the end of 2022 the minimum capital adequacy requirements for banks will be raised from the current 8 percent to 11.5 percent of risk-weighted assets. The new ratio is composed of tier 1 common equity of 9 percent and a capital conservation buffer of 2.5 percent. These capital requirements are stricter than those imposed by Basel III (10.5 percent). In addition, as prescribed by the Basel III regime, (a) banks are required to build up countercyclical buffers[a] and (b) systemically important banks may be required to make additional capital charges.
- The weights applied to assets in the calculation of capital adequacy requirements as applied to lending to the private sector are generally higher than before. For instance, a risk weight of 150 percent will apply to borrowing companies rated BB – or lower, and a further increase may be applied if an enterprise's loan portfolio is significantly impaired. Loans supported by a lien on residential properties will enjoy a lower risk weighting of 35 percent instead of the 50 percent previously applied to loans collateralized with real estate.[b]
- The Basel III leverage ratio – requiring banks to hold a minimum ratio of 3 percent of tier 1 capital to unweighted assets – has been introduced.
- New requirements have been added that encompass asset-liability management of banks' liquidity and interest rate risks (Pillar II of Basel II). In September 2017, BCEAO issued several instructions relating to the implementation of Pillar II.
- Two Basel III liquidity ratios are being introduced. They are the liquidity coverage ratio (expected cash outflows in a coming month must be covered by immediately disposable assets and inflows) and the net stable funding ratio (the availability of sufficient stable funding to insulate banks over a one-year time horizon from any short-term market disruption). The instructions defining the items to be included in these ratios and the weights used in their calculation are still to be published.

The 2016 reform package also strengthens the supervisory process regarding (a) the consolidated oversight of cross-border groups, (b) the macroprudential policy framework, and (c) the identification of systemically important institutions for which higher capital charges may be required.

In addition, banks within WAEMU are already challenged to meet minimum capital requirements that were raised from FCFA 5 billion (USD 8.6 million) to FCFA 10 billion (USD 17.2 million), effective starting in mid-2017,[c] as well as a single large exposure limit of 75 percent of regulatory capital. During the transition period until 2022 this standard is to be reduced to 25 percent of tier 1 and 2 capital as under Basel.[d]

a Nonpermanent capital charge requested in case of excessive credit growth.

b The lower risk weighting applies as long as the ratio of the value of the loan to value of the mortgaged property does not exceed 90 percent, the debt service coverage ratio of the total indebtedness of borrowers does not exceed 40 percent, and the borrowers' information is communicated to the licensed credit bureaus.

c According to the International Monetary Fund (IMF), only 57 of 102 banks within the West Africa Economic and Monetary Union (WAEMU) complied with the minimum share capital of FCFA 10 billion at the end of June 2016 (IMF Country Report for WAEMU 17/99).

d According to the IMF, about 40 percent of banks were in violation of the relatively soft single large exposure limit as of the end of September 2016 (IMF Country Report for WAEMU 17/99).

the minimum capital adequacy requirement of 15 percent and only 7 met the medium- and long-term assets coverage ratio in 2016.[52]

The combination of weak bank capitalization and more stringent prudential requirements will almost inevitably lead to the deceleration of Ivorian banks' lending to the economy. In the long run, the strengthened prudential framework should help insulate the banking systems from economic downturns and avoid the pro-cyclicality associated with Basel I and II. This pro-cyclicality occurred because capital requirements tended to fall when the overall riskiness of assets improved in booms and tended to rise when asset quality deteriorated in busts, thereby amplifying business cycles. The pro-cyclicality is reduced, for example, by Basel III's countercyclical capital buffers and the leverage ratio, which serves as a non-risk-weighted backstop to the otherwise risk-weighted capital requirements.

Given the updating of prudential regulations being introduced by BCEAO, banks are likely to reduce their commitment to Long-Term Finance. While competition and clients' preference for liquidity has driven early redemption penalties towards zero, the "term deposits" designation allows banks to comply with BCEAO's current regulation that requires a 50 percent minimum coverage ratio for medium- and long-term assets with medium-to long-term resources.[53] Thus, while banks formally observe BCEAO's minimum coverage ratio, the reality is that such zero-penalty term deposits are effectively short term, even though they have a longer reported maturity.[54] Once the tightened Basel III-compliant BCEAO prudential regime is introduced, regulators will place greater emphasis on the observed stability of deposits rather than on their stability as defined contractually by their maturity.

The impact of the prudential reforms on the banks' ability to mobilize long-term resources will depend on how the regulators define the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), and on the implementation of Basel II (Pillar II) requirements to be placed on banks in managing their interest rate risks. Once the new liquidity ratios, the LCR and the NSFR, and the Basel II liquidity and interest rate risk management framework have been introduced, it would seem logical to remove BCEAO's minimum 50 percent coverage ratio, as the new regime will be more constraining for banks than the current regulation regarding the management of their maturity exposures. Given the illiquidity of the money market and the lack of availability of hedging instruments, banks will find it difficult to compensate for these tighter requirements regarding management of maturity and interest rate risks.

Banks' access to financing purchases of government securities using BCEAO's refinancing window may give rise to maturity mismatch risks. Such risks are addressed proactively by BCEAO as part of the reformed prudential framework. While banks benefit from borrowing from the central bank and using this liquidity to purchase government securities, that action implies a maturity mismatch, as banks purchase government securities funded with short-term borrowing from the central bank, exposing banks to risk in case monetary policy is tightened. BGEAO monitors any maturity mismatch reported by the banks and when the need arises – as occurred during 2018 – advises banks to adjust the structure of their balance sheets.

5.3 Land titling and property registration

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 subregion) because only a small share of properties are formally registered.[55]

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 housing, for which no out-of-court remedies are available. Despite the existence of commercial courts, 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.[56]

Significant deterrents hamper the registration and conveyance of real estate. Recent reforms have eased the formalization of customary rights and registration processes,[57] but high registration[58] and property transfer charges[59] remain significant deterrents to formal registration of real estate transactions. The process of identifying rightful owners can become complex because of conflicting claims that arise from the appreciation of land value triggered by urbanization projects. While efforts are under way to strengthen the efficiency and reliability of the land titling system, the land administration system covers only part of the country. Even in those areas that are covered, many properties remain unregistered. Current reforms focus on achieving more complete coverage and more reliable record keeping through computerization of land titling.

Because 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 four years). With such short maturities, the required monthly payments are unaffordable for most people. Rent-for-sale contracts do not resolve the funding issues developers face in gaining access to longer-term funding.

A recurrent problem relates to the unreliability of public records of property ownership. This is particularly acute concerning 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 a title. This problem should be alleviated as part of the process of computerization of the land registry.

5.4 Government policies on affordable land and housing

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 management is required to bring land that hitherto has been used informally by

BOX 5.2

Government Support to Financing Low- and Middle-Income Housing

Compte de Mobilisation de l'Habitat (CDMH). CDMH was established in 1987 to provide lenders with long-term funding – originally with the support of foreign donors (Agence Française de Développement and World Bank), and until 1995 with additional support from the government budget. CDMH is a revolving scheme, and its lending capacity is now restricted to the reflows arising from loan repayments. The conditions of its intervention are as follows:

- Refinance loans to primary lenders at 6 percent for 11 years.
- Refinance mortgage loans at a fixed interest rate of 9 percent plus 0.5 percent for insurance for 20 years. The lenders' margins are capped at 3 percent.
- Eligibility is limited to first-time buyers earning up to FCAF 800,000 per month, with a cap on the price of new units of FCAF 20 million before value added tax.

CDMH has refinancing agreements with nine banks, but the actual use of the facility is concentrated in four banks. The disbursement rate is fairly low other than with BHCI. Banks regard the margin cap as the main obstacle. Their appetite for investing in this new, more challenging market segment at such a low spread is limited. In 25 years, CDMH provided funding amounting to FCAF 26 billion to little more than 5,000 loans, and loans outstanding to primary lenders amounted to about FCAF 20 billion (less than USD 40 million).

Fonds Social pour l'Habitat (FSH). FSH is a subsidized financing subsidy scheme created in 1984 to support social housing, primarily in rural areas (for housing below FCAF 10 million and to households with incomes below FCAF 250,000). FSH (a) assumes part of the infrastructure costs, (b) grants interest subsidies on loans extended by Banque de l'Habitat de Côte d'Ivoire (BHCI), in particular to housing cooperatives, and (c) lends to housing cooperatives with a low recovery rate. The fund was entirely dependent on budget appropriations, which came to a halt in 2002, and has since relied on funding reflows. As of 2012 FSH had supported 3,000 units, clearly a very small impact (disbursing only FCAF 22 billion by 2011). Remaining loans outstanding as of the end of 2016 amounted to only FCAF 7 billion (USD 13 million).

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 government has created entities, Compte de Terrain Urbain (CTU) and Agence de Gestion Foncière (AGEF), to build land reserves, formalize property rights, and develop urban infrastructure. These entities buy land from informal owners ("purging" the land of customary rights) and register the land, thus allowing housing development to take place on a sound legal foundation and bringing land that hitherto has been used by village people according to traditional custom into the formal land registration system. However, the activities of these entities are highly constrained because of their reliance on fiscal resources and their inability to leverage long-term resources from the private sector. Overall, they lack the capacity to intervene early enough in the urbanization process to prevent speculative appreciation in the value of land targeted for real estate development. They also do not have the capacity to build infrastructure before housing developments take place. Altogether, this system hampers the development of affordable housing. As a result, owner-driven construction is the main source of land development, and for the most part real estate development takes place as incremental building processes on informally held plots or on informal, ill-serviced land subdivisions.

While the Ivorian government has developed policies and programs to promote affordable housing, 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.[60] An array of measures was introduced to increase the availability of affordable housing, including the provision of land purged of customary ownership rights, provision of subsidized infrastructure services, and dispensation from housing density rules. In addition, several subsidy programs were introduced (see box 5.2), which although advantageous for specific groups, captured resources that could have been deployed for more broad-based improvements focused on increasing the supply of affordable land. These schemes, which tended to fund housing units directly, placed heavy reliance on the availability of fiscal resources and did little to leverage the liquidity available in the banking system. Thus despite these efforts, progress in augmenting the supply of affordable land, increasing the provision of urban infrastructure, and expanding access to credit has been slow.

Recognizing the deficiencies of these social housing finance schemes, the government decided to support reforms of the ongoing affordable housing programs. These reforms have not yet been implemented, in part due to their considerable fiscal cost. The intention was to (a) reduce the CDMH lending rate to 2 percent, bringing the interest rates on individual mortgages down to 5.5 percent, and (b) establish a guarantee fund (Focamin) to encourage banks to lend to informal sector households.

5.5 Sharing of credit information and the availability of partial credit guarantees

Given the incentives provided by the revised regulatory regime, there is a significant risk that Ivorian banks will revert to their old model of offering only short-term finance even to larger corporations. From the banks' point of view, the incentive is to focus on short-term rather than long-term enterprise lending. Short-term lending encourages a closer interaction with clients about their current operations and, in countries where reliable data on borrowers is scarce, frequent renewal of lending contracts allows banks to better manage risks while collecting data on their clients. Hence, even when liquidity is not a binding constraint, banks tend to favor short-term lending because assessing, originating, monitoring, and recovering long-term loans is costlier and riskier and generates less ancillary income in the form of service fees unless spreads earned on long-term loans are sufficiently higher than spreads on short-term lending.

An important impetus to facilitating access to credit through greater information exchange and transparency is provided by the launch of the new credit bureau in January 2016. Although all utility companies are now providing regular reports to the credit bureau, several financial intermediaries provide only partial or delayed data to the credit bureau. Improving the coverage and quality of credit information depends on the removal of the consent clause that requires banks to seek permission of their borrowers when sharing information. Some banks have chosen to extend the use of the consent clause, which is usually applied only to information about individuals, to legal entities. Were the consent clause to be limited to personal data about individuals, the coverage of shared credit information would improve significantly.

While risk mitigation instruments, such as partial credit guarantees, can be effective tools to mobilize the private sector, their impact in terms of enhancing SME finance is hard to assess. The assessment is complicated partly because information on the outcomes of the available schemes is not made publicly available and partly because partial credit guarantees are organized for the WAEMU region rather than on a country-by-country basis. Risk-sharing schemes are offered by international development finance institutions (Agence Française de Développement, IFC, U.S. Agency for International Development/Development Credit Authority, and the AfDB) and regional funds (Fonds Africain de Garantie et de Coopération, Fonds de Solidarité Africain, Fonds de Garantie des Investissements Privés en Afrique de l'Ouest). Banks report mixed experiences. They are put off by the cost of the programs (2 to 4 percent on pari-passu schemes covering 50 percent of the outstanding balance on their loans) and, in their view, excessive paperwork. Greater attention could be paid to assessing the impact of these schemes on SME finance. This effort is hampered because various parties use different definitions of SMEs and there is no sharing of information on the outcomes achieved by the various risk-sharing schemes.

5.6 Development finance and public-private partnership frameworks

It is the responsibility of the government to develop an overarching framework and policy for the delivery of infrastructure services, including determining if it wants to encourage private sector funding and identifying those projects that might be financed by or with the private sector. The government has set up a PPP unit, the Comité de National Pilotage des Partenariats Public-Privé (CNP-PPP), to assist in the development of infrastructure projects. However it appears that the CNP-PPP has not been able to achieve its objectives.[61] Some of the reasons include weak institutional support – because the PPP unit must work with the relevant ministries – and insufficient resourcing of project preparation, which manifests itself in the inefficient dissemination of knowledge about the status of projects and the project pipeline. However, in March 2018, two decrees were adopted on the PPP unit's activities and coordination among relevant government entities that could help strengthen the PPP unit's mandate, including institutional support from line ministries. The impacts of this new institutional support are yet to be realized.

To augment private investment in infrastructure projects, it is vital to have a strong policy and regulatory framework that defines the parameters within which the projects are to be implemented, to ensure that benefits are made available to all parties involved, and government commitment to project identification and development. Project development and procurement activities are risky during the early phases of project preparation and usually require investment by the public sector. Their implementation depends on efficient interministerial coordination and on the availability of specific technical expertise that is often missing in the public sector. Further, developing projects involves high transaction development and execution costs and an extremely lengthy project preparation and procurement process. Project development and preparation costs borne by the government and the private sector range from 3 to 5 percent of the total cost of each project. Efficient deployment of project preparation funds depends on well-defined priorities for the implementation of a robust project pipeline and a strong institutional framework. It is the task of the government to undertake prefeasibility analysis – the process of identifying, screening, and selecting among infrastructure projects. Once a project has been evaluated and identified to be commercially viable, it is crucial to have in place an efficient process for satisfying the informational requirements of potential private sector investors.[62]

Given the funding needs of larger infrastructure programs, the Ivorian authorities are likely to remain dependent on foreign investment as an important source of finance for the foreseeable future. While the government is already tapping foreign markets directly through the issuance of bonds in hard currency, there are disadvantages associated with this approach. Over time, augmented government borrowing only exacerbates pressures on the government budget in terms of the amortization of these loans (payment of interest and repayment of the borrowed resources), as discussed in section 5.1. Thus, it will be important that the authorities set up their PPP framework to encourage greater investment in large Ivorian infrastructure projects both by local institutional investors and by foreign direct investors. It is with this aim in mind that strengthening the PPP framework and the legal and regulatory framework of individual infrastructure sectors becomes such a crucial element in the reform process to augment private participation and thereby increase investment in improved infrastructure services over time.

Development Finance Institutions (DFIs) also provide support to long-term financing of enterprises by investing in financial institutions' equity. Banks regard DFIs as a potential source of capital when it comes to complying with the augmented capital adequacy standards being introduced as part of the Basel II and III reforms. However, there is little evidence of the impact of DFI minority equity (or subordinated debt) investments on the banks' lending to the SME sector. Even when investing directly in MFIs and banks with a mandate targeting support for SME finance, the DFIs' monitoring of the financial institutions' SME lending is often weak.

6. Recommendations: How to Augment the Supply of Domestic LTF

6.1 Contain government borrowing and increase the efficiency of the debt market

Address the limited flexibility arising within the WAEMU monetary union.

The impact of macroeconomic management on the development of domestic financial markets cannot be overemphasized. Responding to the sizeable investment needs of the economy, the Ivorian government has recently augmented its borrowing on the WAEMU market, and as one of the larger economies in WAEMU, and has been able to resort to borrowing on the eurobond market. It would be advisable for the authorities to place greater reliance on tax revenues as the source of funding for their expenditures and to exercise caution in placing increased reliance on domestic and foreign borrowing. Given the banks' preference for purchasing "risk-free" sovereign securities (crowding out risks) as well as the potential risks associated with the availability and cost of foreign borrowing, it is important to limit reliance on borrowed funds.

A common challenge faced by currency unions, such as the WAEMU or the euro area, is that responsibility for fiscal policy lies with the member countries of the zone, but there is little room for diverging fiscal and monetary preferences. All member countries share the same currency and are subject to the same monetary policy as well as by rules governing economic (fiscal and monetary) stability. Because income levels differ and growth potential is divergent among member states within the WAEMU, this inconsistency inevitably gives rise to differing priorities both among governments within the currency union and between governments and the central bank, which sets the parameters for monetary policy for all member states. In the context of this study and the WAEMU, those differing priorities are evident in the divided responsibility for financial sector development, which lies with both the Ivorian government and the regional monetary authority, BCEAO. Building close policy coherence and collaboration between the regional monetary and national fiscal authorities is important if the advantages of the stable currency zone and the larger subregional market are to be fully exploited to the benefit of member states.

Reduce fragmentation on the market for government securities.

Unify government financing instruments, as between BRVM and BCEAO, and harmonize policies regarding the issuance, market-making and pricing, and clearance and settlement of all government securities. Doing so will make an important contribution toward increasing financial market depth within the Côte d'Ivoire and the WEAMU subregion. Combining the two issuance platforms will facilitate building benchmark issues, managing refinancing strategies, and developing tools that facilitate cross-market comparison of sovereign security prices supported by reliable ratings of sovereign creditworthiness. It will also facilitate the process of consulting with the private sector (banks and institutional investors) on designing instruments (maturities, volumes, and so on) to ensure adequate demand for public debt issuances, thereby promoting investor interest and market confidence.

Strengthen liquidity in the short end of the yield curve for government securities.

Support development of the repurchase agreement market for government securities. Strengthening liquidity in the short end of the yield curve for government securities and the functionality of the interbank market is important in developing benchmark pricing for nonsovereign borrowers. In well-functioning markets for government securities, much of the liquidity lies in the horizontal repurchase market for these securities. Repurchase agreements (repos) involve the sale and subsequent repurchase of government securities at a prespecified time and date. These contracts, which combine an immediate sale of a government security with an agreement to reverse the transaction at a specified future date, are an essential element in increasing the liquidity of the government securities market before an active secondary market for government securities has been established. The introduction of a repo market in government securities would also create a more level playing field on the interbank market, as repos are collateralized instruments that facilitate interbank lending by minimizing the credit risk exposure of each counterpart. Work is under way to put in place the legal foundation and supporting market trading infrastructure to support universal adoption of a global master repurchase agreement by market participants and to provide necessary carve-out from insolvency provisions.[63]

6.2 Mitigate the impact of ongoing regulatory reforms on the banks' long-term lending

As documented in section 5.2, regulatory reforms being introduced by BCEAO to comply with Basel II and III, while increasing the solidity of the banking system going forward (and its ability to take on long-term lending risk), may in the short term dampen the banks' ability to undertake long-term lending. The following suggestions are intended to lessen the likely impact of these reforms:

Explore possibilities for deepening the market for issuance of corporate bonds by banks. Doing so would be one means to address the impact of tightened regulatory requirements applied to banks – the outcome of raised capital requirements, reduced single obligor limits and tighter rules on liquidity management and maturity transformation. Banks are already developing plans to strengthen their capital base though retaining a greater proportion of their earnings. An alternative way to reduce the pressure on bank capitalization would be to facilitate issuance of subordinated debt that qualifies as capital as tier II or additional tier I capital under Basel II and III.[64] It is expected that more banks will issue subordinated debt to strengthen their capital base in line with the gradual implementation of Basel II and III.

Consider introducing differentiated risk-weighted asset requirements for residential mortgages. In the latest version of Basel III (December 2017), a differentiated set of risk-weighted assets for residential mortgages was defined, depending on the loan-to-value level – starting with a 20 percent risk weight if loan-to-value ratios are at most 50 percent. This could eventually lead BCEAO to further reduce the capital charges on mortgage lending. However, such a lowering would be tied to several conditions: (a) clear assessment by lenders of borrowers' ability to repay, (b) enforceability of mortgage rights "within a reasonable time frame," and (c) capacity to independently appraise the value of properties in a prudent way.

Ensure that CRRH-UEMOA bonds remain attractive to banks and institutional investors and retain their status as high-quality liquid assets under the Basel III liquidity coverage ratio. CRRH lending is secured with pledges valued at 120 percent (overcollateralization) of the funding it provides. The servicing of the bonds is secured through the allocation of cash flows received from the banks borrowing from the facility to a dedicated escrow account held by an independent institution. Security is also provided by CRRH's shareholders, who have committed to ensuring the servicing of the bonds issued by CRRH if a borrowing bank were to default. Since 2013 BCEAO has accepted CRRH bonds as security for its repo operation. This makes CRRH bonds eligible to be included in the definition of high-quality liquid assets and thereby subject to a minimal haircut (15 percent) under the Basel III liquidity coverage ratio.

Increase mobilization of long-term resources from the capital market through CRRH. Given the impact of the mortgage refinancing agency on financial stability (improved assets/liabilities matching) and mortgage market deepening (longer tenors and fixed interest rates), the WAEMU Council of Ministers and BCEAO should consider how best to improve the regulatory treatment of CRRH operations in a manner consistent with their very-low-risk profile. Measures to be considered include (a) lowering the risk weight of CRRH bonds held by banks, as in the case for well-rated covered bonds in Europe; (b) including CRRH bonds as eligible in meeting the Basel III liquidity coverage ratio; and (c) lowering the risk weights of portfolios collateralized by CRRH, given the quality standards they meet as well as the requirement that banks remove any mortgages that are nonperforming from the pool of funded mortgages. The extension of CRRH's interventions to financially sound MFIs should also be encouraged, since improving the access of MFI networks to long-term funding would enable them to cater to a greater extent to the needs of informal income earners and could significantly expand long-term lending for housing.

6.3 Broaden the scope for lending against security in real estate

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. More resources need to be allocated to computerizing land registration, a significant investment involving the digitization of a large stock of data, and to automating processes to reduce processing delays and enhance security. The development of secured lending will take off only when this comprehensive overhaul is achieved for Côte d'Ivoire as a whole, and not just in Abidjan. Improved coordination among involved agencies (Conservation Foncière, the land registry, and the Ministry of Construction, Housing and Urban Planning) will facilitate this process. Establishing a national housing agency may increase the efficiency of overseeing and coordinating the implementation of programs promoted by several different government bodies and enable more effective information sharing.

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. Current charges are a significant hindrance to property registration and conveyance, reducing the availability and use of collateral for financial transactions.

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. Improving the judiciary's understanding of the secured lending process is crucial to the efficiency of the foreclosure procedures.

Build on and further expand the issuance of bonds by the mortgage finance liquidity facility, the Caisse Régionale de Refinancement Hypothécaire (CRRH-UEMOA). Established in 2010 by 54 WAEMU banks in partnership with regional development finance institutions, CRRH is tasked with providing mortgage lenders with long-term resources raised from the capital market. CRRH has been operational since 2012. By September 2017 CRRF had long-term bonds outstanding of FCFA 82 billion (USD 150 million) and refinanced loans for FCFA 80 billion (USD 141 million). CRRH's refinancing activity is secured by (a) taking housing loan portfolios as collateral with an overcollateralization rate of at least 20 percent, (b) setting quality standards for eligible loans,[65] and (c) requiring that any nonperforming mortgage loans be withdrawn from the cover pools and replaced by current mortgage loans. To bypass the constraint arising from the lack of eligible housing loans due to scarcity of titled properties, CRRH accepts loans that are supported by financial guarantees instead of mortgages as well as – only during a transition period – Treasury bonds.

6.4 Strengthen government affordable land and housing policies

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. Investment for these two purposes needs to take place before the development of new housing. In particular, at an early stage of the housing development process, which normally takes several years, it is crucial to be able to secure land reserves to avoid being impacted by the value appreciation that will arise once land is assigned for housing development. Thus, the development of affordable housing depends on the availability of medium-term finance in the housing development phase. To facilitate this process, it is recommended that a robust framework be established for urban PPPs under the land management agency, Agence de Gestion Foncière. The aim of such PPPs would be to provide sufficient and secure returns to investors by ring-fencing the allocation of cash flows generated by urban projects and to mobilize resources from the private sector by issuing debt project bonds.

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. This could entail introducing appropriate levies and specific taxes, which can be used to support well-targeted affordable housing development projects. On the demand side, well-targeted credit-linked subsidies that leverage private funding could help low- to middle-income households borrow for housing purchases.

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 expand access to housing finance to the majority of the population, which lacks access to housing finance, and yet can be creditworthy. Such a scheme should be established on financial soundness principles, including charging beneficiaries premiums that ensure self-sustainability of the guarantee fund and that alleviate the need for government support other than under exceptional stress scenarios.

6.5 Encourage greater information-sharing and market transparency

Confidence in financial markets – particularly markets in which investors make longer-term commitments – depends on the availability of reliable information about market participants and more developments more broadly.

Make a concerted effort to assemble and disseminate data about Long-Term Finance across the financial system. In order to encourage commitment of private long-term capital to Côte d'Ivoire, the Ministry of Finance needs to increase transparency about the financial system. This relates to the capacity of financial intermediaries to provide long-term funding, to the project preparation process and intentions regarding implementation of pipeline projects, to the demand for financial services (standardizing the definition of SMEs), and to the affordability and willingness to make payments for infrastructure services. Regarding infrastructure services, this task is best handled by the PPP unit, see further recommendations in section 6.6.

Facilitate the process of collecting market data to enable project preparation and development. Use project preparation facilities targeted at ministry-level planning and project screening to strengthen the provision of reliable, up-to-date market data to potential private sector investors.

Establish consistent and comprehensive monitoring of lending to the SME sector under the auspices of BCEAO. Standardizing definitions of SMEs and strengthening the measurement of the impact of SME finance programs could unlock public and private sector funding for SMEs, such as in the form of more efficiently targeted SME lines of credit. The standardized definition[66] and the reporting rule adopted by BCEAO represent a solid first step in that direction.[67] According to the guidance provided by BCEAO, SMEs are defined as any nonfinancial enterprise that (a) is an autonomous enterprise producing goods or services and registered in the Trade and Personal Property Credit Register or an equivalent registry, (b) has an annual turnover excluding taxes that does not exceed 1 billion FCFA, and (c) complies with the legal obligation to produce financial statements in accordance with the provisions in force. However, this definition of SMEs leaves considerable discretion to banks in determining which enterprises live up to the requirement to produce financial statements, as many SMEs struggle to produce such statements or may prefer to retain their informal status. As a result, there is likely to be considerable discrepancy in the scope of reporting by individual banks. It is doubtful whether a definition of SMEs that includes requirements as to their compliance with reporting standards will produce a reliable statistical measure of their prevalence.

Oblige financial institutions to provide reliable and comprehensive information to the credit bureau on a timely basis. Review the current confidentiality clause regarding sharing of borrower information with a view to retaining the obligation that requires financial institutions to seek prior consent of enterprises and individuals only for personal information about individuals.

6.6 Reform the framework for public-private partnerships and development finance

Structural reform and improved operational efficiency of various state-owned entities in various infrastructure sectors is a prerequisite to raising financing on a corporate finance basis. These reforms include corporatizing state-owned companies to enable them to be operated on a commercially and financially sustainable basis. The 2012 PPP Law and supporting regulations provide the foundation for strengthening private sector delivery of infrastructure services through concession arrangements: a concerted effort is now required to strengthen the financial condition of the off-takers and their regulation so that they develop a track record of performance and a risk-profile that will attract private sector investment. For example, the World Bank is currently considering a

EUR 240 million guarantee to enable CI-Energies to raise at least EUR 400 million of new commercial debt with lower interest rates and longer tenors than the funding currently available. Developing CI-Energies into a creditworthy entity operating on a commercial basis will expand its borrowing sources, attract Long-Term Finance at lower rates and on better terms, and reduce its reliance on government support.

Strengthen the PPP unit into a proactive, user-friendly entity with up-to-date information that can expand the government's pipeline of potential projects. There is a need to empower the PPP unit so that it becomes a more proactive and user-friendly entity. It is important that the mandate and professional capacity of the PPP unit is enhanced so that it can provide stronger interministerial coordination and operational cooperation. The PPP unit operational mandate needs to be strengthened so it can build a substantial pipeline of infrastructure projects. It also needs to become more customer friendly by facilitating dissemination of more comprehensive and up-to-date information on the pipeline of potential projects; by ensuring maintenance of an up-to-date website, including in English; by strengthening capacity in being knowledgeable and disseminating information about the status of projects and the project pipeline; and by supporting more effective implementation of the government's (including line ministries') infrastructure programs and projects. As part of the stronger commitment of government, it will be important to ensure that all government parties to infrastructure deals have the required capacity and skills so that decision-making can become better informed and more timely.

Provide greater certainty regarding government's payment for services. In supporting development of PPPs the government can reduce or ring-fence the risks to be assumed by the private sector by establishing an acceptable and creditworthy source of payment, whether from a utility, the government, or directly from the users.

Signal the shift toward local currency financing: Indicate that the government wants to move away from payment for services in off-take contracts for infrastructure projects being denominated in hard currency. For projects that are being procured through a competitive process, structure into the off-take agreement that a portion of the payments are to be made in local currency.

Bundle or standardize smaller projects to reduce costs and incentivize project developers to consider Côte d'Ivoire, such as in small-scale renewable energy projects. Where there is demand and sufficient commitment by governments to create an enabling environment, multilateral development banks and development finance institutions could put together a debt-financing platform for small-scale projects (as has been achieved for renewable energy projects in South Africa and for a series of toll roads in Colombia). So far the process of bundling small projects to "wholesale" their funding has been initiated in the housing sector, but not yet elsewhere. Local currency debt funds can be used to facilitate funding of bundled or standardized projects and to reduce transaction costs, thereby incentivizing project developers.

Consider establishing a take-out facility for bank lending to smaller infrastructure projects, such as renewable energy projects. Expanding domestic bank lending to the infrastructure sector requires the development of financial products that provide the banks with a mechanism to roll over their debt, put it to a third party,[68] or identify a highly rated third party that is able to underwrite or guarantee the later years of the bank financing. The domestic commercial banks are often unable to provide Long-Term Finance for infrastructure projects because they do not have long-term funding. Such a take-out facility could be used to extend the maturity of financing to infrastructure projects in a way similar to that implemented by Caisse Régionale de Refinancement Hypothécaire in the housing sector. This approach might work well for smaller projects that are similar and can be replicated, such as renewable energy projects. In Côte d'Ivoire it might be possible to expand domestic lending to the infrastructure sector by developing financial products that enable banks to lengthen the tenor of their loans. This expansion could take place without providing a government guarantee if the projects were relatively small and standardized (as is the case with mortgages) because projects suffering from payment delinquency can be replaced with sound projects, thereby shielding holders of the bonds issued by the liquidity facility from credit risk. Local commercial banks in Côte d'Ivoire are constrained in their ability to provide Long-Term Finance beyond about seven years for infrastructure projects because they do not have sufficient long-term funding sources and are restricted from lending longer terms because of their internal asset liability policies and BCEAO's prudential regulation of banks' exposure to interest rate risks. It would be to the advantage of local commercial banks to be given the option of exiting their loans at the end of a seven-year period, thereby

BOX 6.1

Reverse Factoring in Mexico and Peru

Several factoring schemes have been successfully developed with the support of development banks, including NAFIN (Nacional Financiera) in Mexico and COFIDE more recently in Peru. NAFIN operates a direct reverse factoring scheme whereby outstanding bills are transferred to a factor. The factor pays the small and medium-size enterprise immediately at a discount and later collects the full outstanding amount directly from the large buyer. The scheme in Peru works differently: a large supplier pools the invoices from many small buyers. Risk-pooling allows the package of invoices to be financed on better terms than each individual invoice, providing additional liquidity to the large supplier that can be passed on to the small buyers.

A special purpose vehicle was created and funded initially by COFIDE. In the medium term, once a track record has been established and it is possible to ascertain the risk associated with the invoices being discounted, the vehicle aims to source bond financing. The introduction of factoring depends on there being a specific legal and regulatory framework, which BCEAO is currently preparing together with the WAEMU governments.

BOX 6.2

Development Banking: Key Lessons Learned

Among the key lessons learned from the demise of development banking in the post-colonial period are the following:

- The mandates of development banks need to be well defined.
  - While fulfilling a developmental role, development banks need to be able to carry out their mandates on a fully financially sustainable basis. This is crucial to avoid causing a major distortion to financial markets, which would be self-defeating.
  - The mandates of development banks need to be clearly defined and relatively broad so that the banks are able to diversify their risk exposures. While banking for small and medium-sized enterprises would provide a sufficiently broad mandate, servicing a specific sector, such as the agricultural sector, is unlikely to prove to be viable.
- In achieving their mandate according to the above criteria, development banks are best organized as second-tier institutions.
  - Credit risks are best borne by private sector intermediaries that have the specialized skills required to manage credit risks;
- Sound governance of development banks is crucial.
  - The board of each development bank needs to be independent from the government. The majority of board members should be chosen on a transparent basis reflecting their professional qualifications.

Note: For further information, see Michael Fuchs, Luiz Henrique Alcoforado, and Jing Zhao, Nigeria Development Finance

Study: Lessons from International Experience in Designing the Development Bank of Nigeria, (Washington, DC: World Bank, 2016), http://documents.worldbank.org/curated/en/365141527009626947/Nigeria-development-finance-study-lessons-from-international-experience-in-designing-the-Development-Bank-of-Nigeria.

reducing their exposure to long-term interest rate risk. This bottleneck could be addressed by bringing in a highly rated third party that – in the event that the banks do not refinance their loans – would be willing to underwrite or guarantee the later years of the financing so that the loan tenor is long enough to finance the project.[69]

Strengthen capacity in project preparation (pipeline development, financial and commercial risk analysis, land management, and so on), planning, and implementation to reduce development risks. The complexity of project finance transactions and required technical expertise are likely to be limiting factors in the provision of Long-Term Finance for infrastructure development. Because of the complexity of project finance transactions, getting to financial close requires highly specialized financial, legal, and technical capacity on the part of the government.

Access donor funding to defray costs of early-stage project development, feasibility assessment, and project preparation. Increase awareness and, where possible, support early-stage project development of infrastructure project developers, including local investors. Use project preparation facilities for private investors in the early development stage (negotiated projects or business ventures) that may not be well publicized.

Take steps to strengthen coordination among DFIs and international financial institutions regarding their provision of credit lines, partial risk and credit guarantees, and equity investment in financial intermediaries. Ascertain the size and impact of the support, and move toward addressing the boundaries of LTF. Assemble information about the provision of credit lines and partial risk and credit guarantees with a view to assessing their impact. This task is important task because information on the availability and outcomes of the existing schemes is not assembled or made publicly available. Determining the impact of guarantees and credit lines will be important in fostering effective use of scarce resources.

Mitigate the cost of financing environmental and social safeguards with concessional finance or viability gap funding. Mitigate the cost of such safeguards that can make small and medium-sized projects prohibitively expensive by using lower-cost financing in the form of concessional finance or viability gap funding made available by multilateral donor institutions.

6.7 Deepen domestic financial markets

Facilitate SME finance.

Consider alternative loss-sharing structures that would encourage private equity investment in SMEs. Most private equity funds focus on equity investments, but entrepreneurs in smaller firms tend to resist the intrusions of an outside equity partner. They are much more amenable to debt, even when it is structured as a mezzanine instrument with characteristics that are similar to equity. Another important advantage of subordinated debt is that it is by nature self-liquidating. Subordinated debt funds avoid the challenges associated with exit experienced with traditional private equity.

Evaluate equity investments by DFIs in local financial institutions (banks and MFIs). Conduct an assessment of the effectiveness of DFI equity investments in local financial institutions, especially when channeled through external private equity funds, and of their impact on enterprise financing.

Undertake a feasibility study on an SME-focused partial credit guarantee scheme. The feasibility study should explore the possibility of an efficient and sustainable regional partial credit guarantee scheme focused on SMEs. Similar to the experience of CRRH in the housing sector, considerable economies of scale and expertise would be gained from a subregional solution encompassing the WAEMU countries.

Assess new ways of supporting the development of LTF to the enterprise sector through training and capacity building using a challenge fund approach – by soliciting bids from the private sector on how best to support SME capacity development.

Drawing from the recently revised legal and taxation regime, explore ways to enhance the market for leasing. Encourage provision of technical assistance to interested financial intermediaries.

Undertake a feasibility study on establishing a factoring platform. Reverse factoring is an efficient way to enhance access to trade financing and also to reduce the risks and costs faced by suppliers and their clients. While the financing provided is short term, successful implementation could unleash resources that banks would then have available for longer-term financing. Reverse factoring platforms supported by a conducive legal and regulatory framework could provide an efficient way to manage large flows of small receivables while enhancing access to trade financing and also reduce the risks and costs faced by suppliers and their clients (box 6.1). Successful implementation of such short-term financing solutions could unlock financial and human resources to support banks in providing Long-Term Finance to fund longer-term capital expenditures.

Several countries in the subregion – namely, Ghana and Nigeria – have embarked on the process of setting up new development banks targeting the SME sector, and recently the Ivorian Minister of Finance announced that the government intends to set up a development bank to finance agricultural sector development. Given the long history of difficulties encountered in recent decades by development banks, it is important to bear in mind some key lessons of past experiences (see box 6.2)

Mobilize the capital of institutional investors.

Review regulations regarding assets under management in the insurance and pension sectors so as to facilitate diversification in the investment strategies of institutional investors away from holdings in the form of time deposits with banks, government securities, and real estate and land. Incentivize acceptance of new asset classes such as highly rated tradeable securities and build capacity among institutional investors to strengthen governance of investment decisions and understanding of nontraditional and innovative instruments.

Facilitate local institutional investors to make long-term loans to infrastructure projects by undertaking a detailed review with the relevant regulators to identify how to encourage introduction of investment mandates in the infrastructure sector. Because investors are unlikely to have the technical capacity to administer direct loans to infrastructure projects, it would be advisable to set up an infrastructure bond fund or other type of platform to lend to a series of projects in a sector (similar to the Colombia Infrastructure Collective Debt Vehicle used for investment in toll roads). To reduce the risk associated with investment in individual transactions or undertaken by a bond fund, it may be necessary to provide credit enhancement in the form of an insurance "wrap" issued by a local currency guarantor (such as currently offered by InfraCredit in Nigeria or by donor-funded agencies, such as Guarantco).

Consider structural reform of the pension sector to provide informal workers access to basic, fully funded coverage to be provided by Caisse nationale de Prévoyance Sociale. This could significantly increase formal-sector savings, so the government could consider providing some incentives to nonparticipants, such as by lowering contribution requirements or by subsidizing new entrants during the initial phase of participation.

Prepare and implement parametric reform of Caisse de Retraite des Agents de l'Etat (CRAE). While Caisse nationale de Prévoyance Sociale is expected to accumulate savings that would be available to finance the investment needs of the Ivorian economy, the same does not apply to CRAE, the pay-as-you-go pension fund for state civil servants. Given the savings needs of the Ivorian economy, parametric reform of the CRAE is required to address such factors as early retirement, the level of pension benefits, and how best to address any contingent liabilities of the government.

Over the medium term consider moving from pay-as-you-go funding of pensions to a system based on defined contributions. While the demographics in Côte d'Ivoire are highly favorable with a large young population, over time this will change and the savings being accumulated by the pay-as-you-go schemes will diminish. Establishing defined contribution pension schemes will both ensure funding is available to pay pension benefits and increase local savings sorely needed for the financing of infrastructure projects.

Promote capital market development.

Review intermediation costs with issuance on the regional exchange with a view to cutting fees and charges imposed by CREPMF, BRVM, brokers and dealers, and banks. The costs of issuance are regarded as a constraint to new issuance on the BRVM and need to be brought down to encourage greater issuance on the formal market. Over time greater primary and secondary trading activity should lead to the recovery of the income loss associated with this adjustment in the structure of fees and charges.

Make efforts to simplify the process of preparing issuance prospectuses and reducing delays associated with gaining CREPMF approval. Currently these delays discourage issuances, as market circumstances may well change during the preparation and approval period. Simplifying the prospectus requirements and making the approval process more agile – both in relation to standard products and with regard to innovations – will encourage prospective issuers to make more use of the capital market.

Encourage the development of SME funds. Such funds specializing in investment SMEs, such as COFINA, are able to attract capital by listing on the BRVM. Experience elsewhere this approach suggests that such a fund is more likely to succeed than encouraging SMEs to list directly on the SME board recently established by BRVM.

Strengthen efforts to corporatize state-owned enterprises by imposing strong corporate governance standards and tighter transparency requirements as well as by instituting greater coherence in government planning. Make a concerted effort to increase the use of the market in conjunction with privatizations so as to strengthen the mandate of the market and contribute toward raising its attractiveness as a means of sourcing finance.

Develop the regulatory framework to support issuance of nonsovereign corporate debt and infrastructure funds. Corporate bonds that at least initially will be unlisted could relieve pressures on public financing of infrastructure projects and provide an alternative to conventional project finance for PPPs. The authorities should strengthen the framework for corporate bonds to encourage more offerings. Tightened prudential regulation of banks, particularly with regard to exposure to maturity mismatch and large obligators, would provide added incentives for using project bonds for the best-suited projects. By assembling the debt of a number of infrastructure projects, infrastructure funds provide institutional investors with an investment vehicle that diversifies their investment risk across several projects.

While the BCEAO's regulatory framework does sanction the issue of commercial paper,[70] **it would be worthwhile to explore opportunities for deepening that market for commercial paper or certificates of deposit.** Doing so would make it easier for banks to raise short-term liquidity at short notice, thereby lessening the impact of tighter management of bank liquidity by BCEAO (the cap imposed on banks' access to BCEAO's refinancing window).

Appendix A: List of Institutions Interviewed

Public sector	African Development Bank
	Agence de Gestion des Routes (AGEROUTE)
	Banque Ouest Africaine de Développement
	Département de la statistique / Département en charge des questions de règlementation des systèmes financiers (BCEAO)
	Bourse Régionale des Valeurs Mobilières (BRVM)
	Bureau National d'Etudes Techniques et de Développement (BNETD)
	Caisse Nationale de Prévoyance Sociale
	Commission Bancaire (Département de la supervision bancaire et des établissements financiers)
	Conseil Régional de l'Epargne Publique et des Marchés Financiers (CREPMF)
	Conservation foncière
	Ministère de la construction et du logement
	Ministère de l'économie
Private sector (companies, investors, sponsors, and service providers)	Air Côte d'Ivoire
	Compagnie Ivoirienne de Transport Lagunaire (Citrans)
	Hudson CIE
	Ivoire Hydro Energy SA (IHE)
	Société de Transport Lagunaire
Financial institutions, rating agencies, and related associations	Advans
	Afriland First Bank
	Alios Finance
	Bank of Africa
	Banque de l'habitat CI
	Banque Internationale pour le Commerce et l'Industrie de la Côte d'Ivoire (BICICI)
	Banque Nationale d'Investissement (BNI)
	Banque Régionale de Marchés en Côte d'Ivoire
	Bridge Bank
	Bloomfield Investment
	Fidélis Finance
	Confédération Générale des Entreprises de Côte d'Ivoire (CGECI)
	Creditinfo Volo CI
	Microcred
	NSIA Banque CI Orabank
	Société Ivoirienne de Banques (SIB)
Private equity funds, asset managers and investment bankers	Afrinvest
	Cauris Management
	Comoe Capital
	ECP private equity
Bilateral donors, multilaterals	Agence Française de Développement
	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
	Proparco
	World Bank
Individuals	Ismael Toure (transport specialist)
	Me Kouame Klemet (lawyer)

Appendix B: Notes

1 The list of member countries is available at www.compactwithafrica.org/content/compactwithafrica/home/compact-countries.html.

2 AfDB, Economic Outlook for Africa 2019 (Abidjan: AfDB, 2019), www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN.pdf;
AfDB, Economic Outlook for Africa 2018 (Abidjan: AfDB, 2018), www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf.

3 UNECA (United Nations Economic Commission for Africa), Economic Report on Africa 2012: Unleashing Africa's Potential as a Pole of Global Growth (Addis Abba, Ethiopia: UNECA, 2012).

4 ICA (Infrastructure Consortium for Africa), Infrastructure Financing Trends in Africa – 2016 (Abidjan: Infrastructure Consortium for Africa Secretariat, 2017), www.icafrica.org/fileadmin/documents/IFT_2016/Infrastructure_Financing_Trends_2016.pdf.

5 World Bank Group, The World Bank Group's Support to Capital Market Development (Washington, DC: World Bank, 2016), 120. The report finds that the "costs of the traditional model of being a 'public, listed company' are inherently too high for most small businesses."

6 IMF, "Côte d'Ivoire: Staff Report for the 2018 Article IV Consultation and Third Reviews under the Arrangement under the Extended Credit Facility and Extended Arrangement under the Extended Fund Facility, and Request for Modification of a Performance Criterion," Country Report 18/182, IMF, Washington, DC, June 2018.

7 World Bank data, https://data.worldbank.org/country/cote-divoire, obtained July 9, 2018.

8 World Bank data, "Informal employment (% of total non-agricultural employment)," 2012 – 2016, https://data.worldbank.org/indicator/SL.ISV.IFRM.ZS?locations=CI&view=chart.

9 Aleksander Surdej, "Excessive Informal Sector: A Drag on Productivity," OECD Development Matters, August 30, 2017, https://oecd-development-matters.org/2017/08/30/excessive-informal-sector-a-drag-on-productivity.

10 AfDB, "Côte d'Ivoire Economic Outlook," 2019, www.afdb.org/en/countries/west-africa/cote-d%E2%80%99ivoire/cote-divoire-economic-outlook.

11 World Bank, Doing Business 2018: Reforming to Creation Jobs – Côte d'Ivoire (Washington, DC: World Bank, 2018).

12 Transparency International, "Côte d'Ivoire," www.transparency.org/country/CI.

13 IMF, "Côte d'Ivoire: Staff Report."

14 Ecofin Agency, "Côte d'Ivoire to Invest over $7 Billion in Infrastructure Sector," March 7, 2018, www.ecofinagency.com/public-management/0703-38167-cote-d-ivoire-to-invest-over-7-billion-in-infrastructure-sector.

15 AfDB, African Economic Outlook 2018 (Abidjan: AfDB, 2018), www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Economic_Outlook_2018_-_EN.pdf.

16 Infrastructure Consortium for Africa (ICA), "Infrastructure Financing Trends in Africa-2016," ICA, Abidjan, 2017, www.icafrica.org/fileadmin/documents/IFT_2016/Infrastructure_Financing_Trends_2016.pdf.

17 GIH's gap estimates may be found in Global Infrastructure Hub (GIH) and Oxford Economics, "Global Infrastructure Outlook: Infrastructure Investment Need in the Compact with African Countries, GIH, Sydney, Australia, 2018, https://s3-ap-southeast-2.amazonaws.com/global-infrastructure-outlook/methodology/Global+Infrastructure+Outlook+CWA+update+-+June+2018.pdf.

18 https://s3-ap-southeast-2.amazonaws.com/global-infrastructure-outlook/countrypages/GIH_Outlook+Flyer_Cote%20d'Ivoire.pdf, accessed 20th August 2018.

19 AfDB, "The Africa Infrastructure Development Index 2018," July 2018, www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_The_Africa_Infrastructure_Development_Index_July_2018.pdf.

20 Centre for Affordable Housing Finance in Africa (CAHF), 2018 Finance in Africa Yearbook (Johannesburg: CAHF, 2018), http://housingfinanceafrica.org/documents/housing-finance-in-africa-yearbook-2018.

21 World Bank, "Analyse fine de la demande en logement à Abidjan," report, December 2016.

22 There is no data on the volume of residential mortgages outstanding in the WAEMU zone. Once the revised Basel-based prudential framework is introduced, risk weightings will be differentiated for capital adequacy purposes according to whether banks finance residential mortgages, developer loans, or commercial real estate; with this in mind, the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO) is preparing to assemble data on the specific purpose of bank lending.

23 CAHF, 2018 Finance in Africa Yearbook.

24 Entrepreneurial Solutions Partners (ESP) "Rapport: L'Enquête 'Données pour la Croissance,'" ESP, Abidjan, 2016, https://lafinancesengage.com/forum/drive/file/rapport_donnees_pour_croissance_edition_2016.
The report, led by ESP with Confédération Générale des Enterprises de Côte d'Ivoire (CGECI) and AfDB, studied 4,212 enterprises across Côte d'Ivoire, covering all economic sectors.

25 IFC, MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small, and Medium Enterprises in Emerging Markets (Washington, DC: IFC, 2017), https://openknowledge.worldbank.org/handle/10986/28881. The report estimates that Côte d'Ivoire has 203,000 enterprises with FCFA 3.78 billion in financing needs, two-thirds of which remain unmet by the formal financial sector.

26 ESP, "Rapport: 'L'Enquête 'Données pour la Croissance.'"

27 IFC, MSME Finance Gap.

28 ESP, "Rapport: 'L'Enquête 'Données pour la Croissance.'"

29 Included among bank assets are the assets of two small leasing companies, which together have less than 0.8 percent of the assets of the Ivorian banks.

30 According to end-2015 data published by the African Development Bank, banking, insurance, and pension sector assets were USD 8.8 billion, USD 1.4 billion, and USD 0.5 billion, respectively. AfDB, African Financial Sector database, Africa Information Highway, http://dataportal.opendataforafrica.org/AFDBFP2016/african-financial-sector-database-2016?country=1000470-c%C3%B4te-d-ivoire.

31 This is particularly the case in Kenya and Nigeria, where private sector pensions are fully funded. See Tom Minney, "How Big Are African Pension Funds?," African Capital Market News, November 30, 2017, www.africancapitalmarketsnews.com/3544/how-big-are-african-pension-funds.

32 The BRVM was established in 1998 as a replacement for the Ivorian stock exchange. The regional clearinghouse (DC/BR) also began operations in 1998.

33 The size of government bond markets in Kenya and South Africa are equivalent to 55 percent of GDP (according to the AfDB's African Financial Markets Initiative database).

34 CREPMF up-front fees are between 1.5 percent and 3 percent, depending on the volume issued. In addition, BRVM and DC/CR (clearing system) charges are equivalent to about 0.15 percent on net present value terms.

35 Only six shares make up 53 percent of the capitalization on BRVM. They include two telecommunications companies (Sonatel of Senegal and Onatel of Burkina Faso) and four banks (Coris of Burkina Faso, ETI of Togo and Ecobank and SGBCI of Côte d'Ivoire). Sonatel alone makes up 33 percent of market capitalization, see the BRVM bulletin at www.brvm.org/sites/default/files/boc_20181002.pdf.

36 Among the private placements are Micrcred (2016), Alios Finance CI (2017), Dekel Oil (December 2017), and Cofina (February 2018).

37 Data for the first eight months of 2018 are provided by the World Federation of Exchanges, www.world-exchanges.org/our-work/statistics.

38 Interview with representative of Alios Finance, February 2018.

39 See further discussion of introduction prudential regulation under Basel II and III in chapter 5.

40 One party managing such funds that target SMEs on behalf of impact investors is the French-domiciled Investisseurs & Partenaires.

41 Credit to the private sector provided by microfinance institutions is relatively small compared with credit provided by banks. In total, MFI credit amounts to about 4.1 percent of the credit provided by banks.

42 BCEAO, "Présentation du dispositive de soutien au financement des PME/PMI," BCEAO website, www.bceao.int/fr/content/presentation-du-dispositif-de-soutien-au-financement-des-pmepmi.

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

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

45 For a more detailed description, see Gilles Horenfeld, "Étude sur la production et le financement de logements sociaux à Abidjan," Agence Française de Développement, 2013.

46 Institut National de la Statistique, Enquête sur le Niveau de Vie des ménages en Côte d'Ivoire (household survey) (Abidjan: Government of Côte d'Ivoire, 2015).

47 The extent to which banks use seven-day low-cost BCEAO loans to fund purchases of long-term government securities varies from bank to bank. At the end of 2015, the overall size of the BCEAO short-term lending to the banking system was equivalent to 11 percent of banks' total assets.

48 In June 2017, Côte d'Ivoire issued a 16-year U.S. dollar-denominated bond, with principal repayments spread over 3 years, as well as an 8-year euro-denominated bond. Some of the proceeds were used to buy back a portion of outstanding bonds maturing in 2024 and 2032. These operations netted about USD 1.2 billion (equivalent to about 3 percent of GDP) for deficit financing. In March 2018, euro-denominated eurobonds with 12- and 30-year maturities were issued. This raised EUR 1.7 billion (equivalent to about USD 2.1 billion and about 4.2 percent of GDP). (IMF, Article IV report, April 2018).

49 IMF, "Côte d'Ivoire: Staff Report for the 2018 Article IV Consultation."

50 IMF, "Côte d'Ivoire: Staff Report for the 2018 Article IV Consultation."

51 Confirmed by BCEAO's instruction #026-11-2016 of November 2016, art. 16. See www.bceao.int/sites/default/files/2017-11/instruction_no_026-11-2016_-_relative_a_la_comptabilisation_et_a_l_evaluation_des_engagements_en_souffrance.pdf.

52 Rapport annuel 2016 de la Commission Bancaire.

53 The minimum coverage ratio was lowered from 75 percent to 50 percent in 2015, supporting faster growth in loans with longer maturities. Medium- and long-term loans are defined as loans with maturity of two years or more.

54 Data on the extent to which deposits remain with banks beyond their contractual maturity would be needed to measure the size of the core deposit base.

55 Under OHADA, registration is required to establish a ranking among mortgage lenders and thereby prevent litigation between different creditors.

56 Despite cultural reluctance to purchase homes whose previous owners have been evicted, mortgages still provide desirable security, because borrowers will endeavor to repay when their homes are at stake and banks are provided from relief when undertaking collateralized lending both in terms of capital adequacy risk weighting (35 percent for mortgage loan versus 70 percent for unsecured loans) and in terms of provisioning.

57 Formalization of rights still involves three steps: transfer of the land to the state or its agencies; indemnification of traditional rights holders; and registration of the land, with the creation of Titres Fonciers.

58 Fees for establishing title and stamp duties amount to 15 percent of administratively set property values. Even if those values are below market value, they are still considerable.

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

60 These include reimbursement of value added tax, exemption from registration charges, exemption from the tax on interest payments, and reduced corporate income tax on larger developments.

61 The government's 2016 – 20 National Development Plan (Plan National de Développement, PND) envisages investment in infrastructure projects amounting to FCFA 29 trillion (EUR 44.2 billion). Among the planned projects are 94 public-private partnerships.

62 Data requirements may include factors such as information on land ownership, traffic flows, geological or weather studies (for solar or wind projects), and the identification and mapping of viable sites, including land registry information.

63 An important legal requirement is the introduction of close-out netting. In the event of counterparty bankruptcy or any other relevant event of default specified in the relevant agreement, close-out netting implies that all transactions or all of a given type are netted (that is, set off against each other) at market value. The alternative would allow the liquidator to choose which contracts to enforce and which not to (and thus potentially to "cherry pick").

64 Subordinated debt issued as part of additional tier I capital must be convertible into equity or can be written off should the regulators, at their sole discretion, deem that the bank in question is at the point of nonviability.

65 Loans need to be the first lien on fully titled properties, or they need to be supported by financial guarantees provided by regulated insurance companies or entities supervised by the BCEAO. They also need to reflect a conservative assessment of property values and be collateralized by up to 90 percent of the underlying property value.

66 Available on the BCEAO website, www.bceao.int/fr/content/presentation-du-dispositif-de-soutien-au-financement-des-pmepmi.

67 BCEAO Instruction 024-11-2016 relates to the definition of attributes.

68 Here the "put" refers to an option to transfer the debt at a specific maturity and predefined price to a third party.

69 For example, to introduce a local currency component and develop local bank lending capacity into an IPP project financing, the Cameroon Kribi Gas Project used an International Development Association guarantee that gave the domestic commercial banks an option to extend their local currency debt or put the debt to the government with the government assuming the financing risk in the later years of the project, thereby lengthening the maturity of the loans made available by local banks to produce a bankable project with Long-Term Finance.

70 BCEAO Regulation 96-03, in effect since July 1, 1996, regulates the issue of commercial paper, certificates of deposit, bonds of financial institutions, and vouchers of regional financial institutions.

As a federally owned enterprise, GIZ supports the German Government in achieving its objectives in the field of international cooperation for sustainable development.

Published by
Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn, Germany

Dag-Hammarskjöld-Weg 1 – 5
65760 Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15

E info@giz.de
I www.giz.de

Programme/project description:
Long-Term Finance Initiative

Authors
Michael Fuchs, Olivier Hassler, Franz Le Lesle, Dianne Rudo and Makaio Witte

Design and layout
Eva Hofmann, Katrin Straßburger, W4 Büro für Gestaltung, Frankfurt

Photo credit
Title: Roman Yanushevsky / 123RF

On behalf of
African Development Bank (AfDB), German Development Cooperation (BMZ / GIZ), Centre for Affordable Housing Finance (CAHF), Financial Sector Deepening Africa (FSD Africa) / UK's Department for International Development (DFID)

Printing and distribution
Braun & Sohn Druckerei GmbH & Co. KG

Printed on 100% recycled paper, certified to FSC standards.

Frankfurt, 2020