



ENVIRONMENTAL AND SOCIAL MANAGEMENT POLICY

Environmental and Social Management Policy of CRRH-UEMOA

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ACRONYMS

SB	Shareholder bank
RB	Refinanced bank
E&S	Environmental and social
ESRM	Environmental and Social Risk Management
ESMS	Environmental and Social Management System
IFC	International Finance Corporation
BOAD	West African Development Bank

1. INTRODUCTION

Environmental and social sustainability is an essential component of CRRH-UEMOA's commitment to responsible financing.

The environmental and social risk management policy and procedures of CRRH-UEMOA lay out the general principles and processes underlying the effective implementation of CRRH-UEMOA's commitment to environmental and social sustainability. These principles cover provisions relating to the inclusion of environmental and social risk management (ESRM) into its refinancing activities.

CRRH-UEMOA's mandate is to mobilize long-term financing for its shareholder banks to refinance housing loans granted to their customers. To this end, it issues bonds and other securities on the WAEMU regional financial market. It also mobilizes concessional resources from development partners.

CRRH-UEMOA only refinances its Shareholder Banks (SBs).

The policy and procedures documents seek to introduce a systematic approach to the management of environmental and social challenges and risks associated with the processes and operations of CRRH-UEMOA.

This document is also consistent with CRRH-UEMOA's mandate of providing financial and responsible solutions to its shareholder banks and, as such, is an integral part of CRRH-UEMOA's overall risk management framework.

CRRH-UEMOA also strives to assist its shareholder banks (SB) to maintain appropriate environmental and social standards based on the following benchmarks:

- World Bank standards
- Standards of the West African Development Bank (BOAD).
- ISO 14000.

This document underscores CRRH-UEMOA's commitment to sustainable finance in its operations, the implementation of appropriate procedures and development programs to ensure that CRRH-UEMOA complies with environmental and social standards and regulatory requirements in WAEMU countries, as well as with those of the international financial institutions that support it.

This document outlines CRRH-UEMOA's approach to the implementation of an Environmental and Social Risk Management (ESRM) to reduce the Environmental and Social (E&S) risks and associated effects related to its refinancing activities. The environmental and social risk management policy and procedures are an integral part of the Environmental and Social Management System (ESMS).

The Environmental and Social Risk Management is committed to implementing and promoting an appropriate Environmental and Social Management System (ESMS) for itself - but also for the financial institutions to which it on-lends funds - in order to effectively assess and control E&S risk exposures. The ESMS is a framework for lending operations supported by CRRH-UEMOA.

2. ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT POLICY

2.1 Policy approach

1. CRRH-UEMOA's main objectives are to increase liquidity of the mortgage market and availability of mortgage credit, reduce mortgage and related costs, and make home ownership more accessible. CRRH-UEMOA's primary role is to act as a mortgage refinancing institution, as a source of long-term liquidity and as a link between mortgage lenders and the capital markets. The loans are intended to refinance the construction or acquisition of housing or, to finance both the acquisition of building land and the cost of housing construction work. Work aimed at creating or transforming a habitable surface area, by extension or rehabilitation, is treated in the same way as construction. Loans for the financing of office or business premises are thus excluded.
2. CRRH-UEMOA strives to promote the development of its activities and considers that the environmental and social sustainability of its activities is an important component in achieving a positive impact on the development of the economies of the Union. It considers that the application of this policy contributes to this objective.
3. CRRH-UEMOA recognizes that with its core mortgage refinancing operations, it could potentially be exposed to environmental and social (E&S) risk associated with the mortgage lending activities of the Shareholder Banks (SBs), including the Refinanced Banks (RBs), which may constitute a financial, legal and reputational risk for CRRH-UEMOA. The E&S risk associated with CRRH-UEMOA's refinancing activities through its SBs depends on factors including the E&S circumstances associated with housing loan operations. E&S issues may present risks and negatively impact (i) the quality of the collateral attached to the assets in the mortgage portfolio submitted by the SBs for refinancing by CRRH-UEMOA and (ii) the ability of mortgagors to repay these loans.¹
4. The CRRH-UEMOA therefore supports the SBs to institutionalize and put in place appropriate policies, procedures and practical tools to determine the environmental and social risk of the housing loans that they approve and subsequently propose to CRRH-UEMOA for refinancing.
5. The CRRH-UEMOA approach recognizes that identifying and managing E&S risks is a shared responsibility between CRRH-UEMOA and the SB. This policy is therefore intended to clearly define the scope, applicable requirements and actions to be taken by the SB to foster effective E&S risk management.

¹ In accordance with CRRH-UEMOA's operating model, these loans are secured by a pledge of a portfolio of mortgage loans of the refinanced bank. The mortgage lender retains the loan portfolio on its balance sheet, but any loan that becomes impaired must be replaced by a performing loan. Thus, the credit risk is borne by the SB.

6. CRRH-UEMOA is committed to working with the SB and other stakeholders in housing finance to fulfil its role as a catalyst for sustainable housing finance in the WAEMU region.

2.2 Policy goals

7. The specific policy objectives include the following:
- Incorporate ESRM reflections into the decision-making process for refinancing/guarantee taking of the CRRH-UEMOA.
 - Implement and comply with international requirements for E&S risk management in the financial sector (the Principles for Sustainable Banking), and those of the CRRH-UEMOA's bilateral and multilateral lenders.
 - Require the SBs to comply with standards for the control of environmental and social risk associated with mortgage lending.
 - Promote greater transparency and internal and external accountability for E&S issues through the publication and reporting system.

2.3 Scope of application

8. This policy applies to CRRH-UEMOA's refinancing activities as set out in the statutory framework, the rules of intervention and supervision of the CRRH-UEMOA.

2.4 Applicable environmental and social standards

9. Refinanced banks will be asked, as part of the process of evaluating the refinancing granted to them, to integrate the E&S requirements applicable to CRRH-UEMOA, with the following three components:
- a. Applicable local laws and regulations of the refinanced Bank's country of establishment ²
 - b. CRRH-UEMOA's list of exclusions of mortgage loans that are not eligible for refinancing, given the negative environmental and social impacts (Schedule 1)
 - c. CRRH-UEMOA's environmental and social control criteria (Annex 5).
10. As a condition of eligibility for refinancing ³ of the CRRH-UEMOA, RBs must put in place the following institutional systems and minimum capabilities to allow for

² Among other criteria, the CRRH-UEMOA will ensure that each RB verifies that loan applications contain queries on the conditions relating to housing ownership, occupation and land title.

³ Especially, the criteria for eligibility of applicants for CRRH-UEMOA refinancing

E&S monitoring in accordance with CRRH-UEMOA requirements as indicated in paragraph 9 above:

- a. The RB has adopted an E&S policy and procedure that reflects the E&S requirements of CRRH-UEMOA;
 - b. The RB designates personnel with clearly identified responsibilities for E&S risk management;
 - c. The RB develops internal capacity to perform E&S monitoring.
11. CRRH-UEMOA will request the RBs to develop and maintain personnel management procedures for their staff in accordance with existing laws.

2.5 Environmental and Social Prudence and Supervision

12. CRRH-UEMOA will incorporate due diligence and supervisory functions in its refinancing activities described in paragraph 8 and in accordance with its applicable E&S requirements described in section 2.4 of the policy. A high-level structure for the due diligence process is presented and the CRRH-UEMOA's internal process is presented in Annex 2.
13. CRRH-UEMOA will perform its E&S due diligence towards the SB at an institutional level and also on the mortgage profile to be refinanced.
14. As part of its E&S due diligence at the institutional level, CRRH-UEMOA will review the policies, procedures and capacities of the RBs to conduct E&S monitoring (based on the criteria in Annex 3). If CRRH-UEMOA considers that the SB does not have the requisite systems and capacity described in paragraph 10 of this policy, that SB will not be eligible for refinancing by CRRH-UEMOA, unless a time-bound remedial action plan is put in place and approved by CRRH-UEMOA.
15. The prudential requirements for the mortgage portfolio submitted by the SB's for refinancing/collateralization will be met as follows:
- a. An E&S check will be incorporated into the SB's prudential obligations/assessment process, based on CRRH-UEMOA's applicable E&S requirements. Such provisions will be formalised as an integral part of the conditions of the refinancing granted by CRRH-UEMOA to the RBs. In particular, for each instalment of the refinanced mortgage loan, the SB will be required to provide CRRH UEMOA, together with the refinancing request, with a confirmation letter describing: (i) the measures taken for an appropriate implementation of the E&S prudential requirements and (ii) the results of the E&S monitoring process of the mortgage portfolio. RBs will be required to maintain appropriate documentation of the process and results related to the E&S prudential requirements and E&S controls.
 - b. The CRRH UEMOA will review and verify the E&S information provided by the SBs in the confirmation letter and take it into account as part of the acceptance criteria of the mortgage portfolio prior to refinancing. This

may require additional safeguards specific to the risk profile of each mortgage portfolio.

16. CRRH UEMOA will incorporate the RB's E&S control processes into its supervision and control procedures. This program will include periodic visits to RBs to verify the policies, procedures, capacity and documentation that support the RBs' confirmation of appropriate E&S precautionary and control measures.
17. The RBs will be asked to prepare and submit an annual environmental and social performance report to CRRH-UEMOA.

2.6 Communication and publication

18. CRRH-UEMOA will ensure transparency of its activities through the publication of its E&S policy and requirements, but also of all its commitments to support sustainable financing.
19. A summary of the E&S policy and procedures will be prominent on the CRRH-UEMOA website and will be included in its annual report. CRRH UEMOA also undertakes to declare its E&S activities in accordance with its obligations and the requirements of investors.

2.7 Policy change and development of a new policy

20. CRRH-UEMOA's policies and procedures are reviewed and approved by senior managers.
21. CRRH-UEMOA will update its ESRM policy every two years to ensure its relevance, reflecting changes in its activity, and in accordance with national laws and alignment with bilateral or multilateral lender financing and investor requirements, if necessary. This review will also ensure that the overall approach to E&S risk assessment and management remains relevant and consistent with national and international best practices and standards.
22. CRRH-UEMOA may, if necessary, also develop complementary E&S policies, procedures and tools to respond more comprehensively to specific risks.

ANNEX 1: CRRH-UEMOA EXCLUSION LIST

The purpose of this list is to present the criteria based on which CRRH-UEMOA will not refinance a portfolio of housing loans proposed by a refinanced bank, when the loans in this portfolio are deemed by CRRH-UEMOA to be associated with:

1. Illegal building construction or construction that does not comply with applicable national and local laws and regulations.¹
2. Properties or land resulting from unlawful forced evictions of owners or occupants.²
3. Properties built on land from which local communities (including squatters and other untitled occupants) have been involuntarily relocated/housed without proper compensation by government agencies or builders.³
4. Properties involving a previously identified land dispute.
5. Properties constructed in places and/or in a manner that involves significant degradation or conversion of critical habitat ⁴ and/or legally protected areas⁵.
6. Properties built in places and/or in ways that imply significant negative impacts on essential cultural heritage ^{6,7}.

Expositions

1. Unauthorized construction, housing construction in areas not designated as residential, encroachment on public or governmental or private land ownership, etc.
2. The permanent or temporary forced eviction without adequate legal or other protection, of individuals, families or communities from their homes or the lands they occupy. The prohibition of forced evictions does not, however, apply to those carried out in accordance with the law and in conformity with the provisions of the International Conventions on Human Rights. This criterion will apply only to evictions carried out specifically in anticipation of or in preparation for housing construction activities for which mortgages have subsequently been granted by the RBs.
3. Resettlement must follow a process that can limit negative social and economic impacts by (i) providing compensation for the loss of assets at the replacement price defined as the market value of the assets plus transaction costs and (ii) ensuring that resettlement activities are accompanied by appropriate information provision, informed consultation and participation of affected persons. This criterion will apply only to relocation/resettlement carried out specifically in anticipation of or in preparation for housing construction activities for which the mortgages were subsequently granted by the RBs.
4. Critical habitat is a subcategory of both natural and modified habitat that requires special attention.

Critical habitat includes areas of high biodiversity value meeting the International Union for the Conservation of Nature (IUCN) classification criteria, including critical habitats for critically endangered and/or endangered species as indicated on the International Union for the Conservation of Nature (IUCN) Red List of Threatened Species;

(iv) areas of high importance for endemic species and/or limited distribution; (v) areas of high importance hosting significant international concentrations of migratory species and/or unique species; (vi) areas that are associated with key evolutionary processes. Primary forests or High Conservation Value (HCV) forests should be considered critical habitats. The HCV Resource Network, an internationally recognized group, provides information and support on evolving uses related to HCV character to ensure a consistent approach. <https://www.hcvnetwork.org/>.

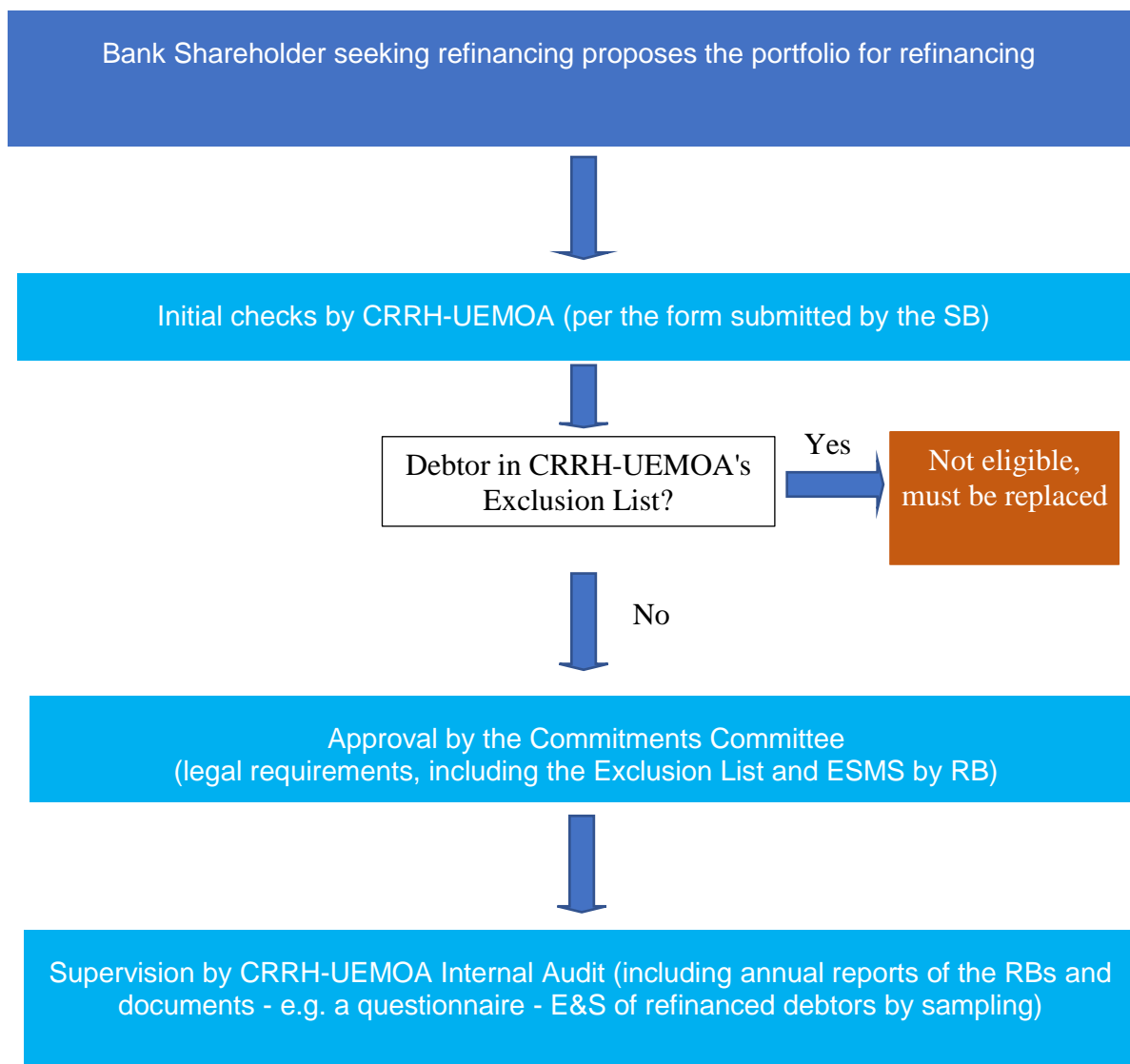
5. These criteria will only apply where such downgrades or conversions have been carried out specifically in anticipation of or in preparation for the housing construction activities for which the mortgages were subsequently granted by the RBs and/or which are likely to take place or continue after construction.

6. Essential cultural heritage includes one or both of the following types of cultural heritage: (i) internationally recognized cultural heritage of communities that use or have used such heritage for cultural purposes in living memory; and (ii) legally protected cultural heritage areas, including those that host governments propose to classify as such.

7. These criteria apply only where such impacts are specifically felt in anticipation of or in preparation for the housing construction activities for which the mortgages were subsequently granted by the RBs and/or which are likely to take place or continue after construction.

ANNEX 2: CRRH-UEMOA'S INTERNAL PROCESS FOR EVALUATING PROPOSED PORTFOLIOS

Diagram A2-1. The internal process



ANNEX 3: E & S PERFORMANCE CRITERIA

Domain	Description
1. System and capacity	
E&S staff and capacity	<p><i>Staff formally designated to manage E&S issues</i></p> <p><i>Internal training developed and implemented to raise the awareness of the staff in charge of this area on the required E&S control processes, criteria and documentation.</i></p>
E&S Policy and Procedures	<p><i>Development of a written E&S policy and procedures to internalise the E&S control processes within the RB and formally adopted by the senior management of the institution</i></p>
Management Committee	<p><i>Level of management commitment to incorporate E&S aspects into risk management practices at the RB including resourcing and approval conditions</i></p>
2. Implementation	
Compliance with applicable requirements	<p><i>Appropriate implementation of the E&S monitoring process, including application of the CRRH-UEMOA E&S requirements</i></p>
Documentation	<p><i>The RB keeps appropriate documentation and is available at the request of CRRH-UEMOA</i></p> <p><i>Inclusion in financing agreements and other appropriate documentation to the final borrower</i></p> <p><i>Annual E&S reports are prepared and submitted on time to CRRH-UEMOA</i></p>

ANNEX 4: CRRH UEMOA'S INDICATIVE CRITERIA FOR ENVIRONMENTAL AND SOCIAL CONTROL OF REFINANCED BANKS (RBs)

Criteria	Control issues
Safety of the building	<p>(i) Have the properties been constructed in compliance with appropriate national and local laws and regulations, including work regulations regarding occupational health and safety, child labour, and forced labour?</p> <p>(ii) Are the properties located in areas clearly designated as residential?</p> <p>(iii) Have additional measures deemed necessary by the RB relating to the duty of care been put in place and implemented consistently?</p>
Sites prone to natural disasters	<p>(i) Does the RB assess the susceptibility of its properties to natural disasters??</p> <p>(ii) Are measures in place to mitigate the associated risks?</p>
Sites dangerous for human habitation	<p>(i) Does the RB assess the risks associated with sites dangerous for human habitation (such as landfills)?</p> <p>(ii) Does the RB exclude financing properties in these areas?</p>
Access to basic services (e.g. water and sanitation)	<p>(i) Does the RB take into account basic services in the financed projects?</p> <p>(ii) Does the RB exclude the financing of properties located in areas without access to basic services?</p>
Properties constructed on sites and/or in such a way that they adversely affect land, natural resources, or critical cultural heritage that are used as livelihoods by vulnerable and/or historically disadvantaged traditional local communities	<p>(i) Are the RBs conducting assessments of whether such effects exist (as in some places where RBs are highly concentrated in mortgages such as new large-scale housing programs)?</p>
Household activities hazardous to the environment and/or human health and safety	<p>(i) Does the RB take into account domestic activities hazardous to the environment and/or human health and safety (such as the storage of hazardous chemicals), , in its assessment process?</p>

	<p>(ii) Has the RB put in place measures to mitigate potential risks (e.g. including documentation in the appropriate language for final borrowers)?</p>
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