SHELTER-AFRIQUE

NAIROBI, KENYA

Analysis of the activities of a housing finance institution in Africa

Validity: august 2020 to July 2021

Category of securities	Rating scale	Currency	Previous rating	Current rating	Expiry date	Outlook
Long-Term	Regional	**CFA**	**BBB+**	**BBB+**	**07/31/2021**	**Stable**
Short-Term	Regional	**CFA**	**A3**	**A3**	**07/31/2021**	**Stable**

Bloomfield Investment Corporation

Tel: (225) 22 54 84 40/41
Fax: (225) 22 54 84 40

Soraya DIALLO, VP & Director Bloomfield Ratings
s.diallo@bloomfield-investment.com

Mohamed TOUKOUROU, Senior Financial Analyst
m.toukourou@bloomfield-investment.com

www.bloomfield-investment.com

Basic financial information

In thousand USD	2018	2019
Total assets	229 432	193 132
Loans	108 490	66 894
Equity	106 786	115 421
Liquid assets	44 459	56 974
Loans and advances	165 187	114 635
Interest and similar income	17 617	15 338
Net total income	-9 250	-1 259

Introduction

Shelter Afrique is a pan-African financial institution established in 1982, which supports the development of the housing and real estate sector in Africa.

Shelter Afrique was established by African governments, the African Development Bank (AfDB), the African Reinsurance Corporation (Africa-Re) and CDC Company plc[1] to address the need for affordable housing in Africa. The Institution has three (3) active regional offices for: English-Speaking West Africa (Abuja, Nigeria), French-Speaking West Africa (Abidjan, Cote d'Ivoire) and Eastern and Southern Africa (Nairobi, Kenya).

As at 31st December 2019, the share capital of Shelter Afrique remains unchanged and breaks down as follows:

Table 1: Share capital structure as at 31 December 2019

Amount in thousand USD	2018	2019
Authorized capital	1 000 000	1 000 000
Callable capital	500 000	500 000
Issued and called	183 903	183 903
Incl. paid-up capital	*91 760*	*97 388*

Source: Shelter-Afrique

The value of Shelter-Afrique's paid-up capital has increased by 6%, from USD 91,760 million in 2018 to USD 97,388 million in 2019.

Shelter Afrique's share capital is held by two (2) groups of shareholders made up of 44 African countries in category A and the African Development Bank (AfDB) and the African Reinsurance Corporation (Africa-Re) in category B. The mission of these shareholders is to mobilize resources for housing promotion in Africa.

Table 2: Distribution of paid-up capital as at 31 December 2019

Shareholders	2018	2019
Class A		
Benin	0,33%	0,31%
Burkina Faso	1,04%	0,98%
Cote d'Ivoire	4,08%	4,82%
Ghana	6,88%	6,48%
Guinea Bissau	0,03%	0,03%
Kenya	15,26%	16,25%
Mali	4,62%	4,88%
Niger	0,35%	0,33%
Nigeria	11,37%	10,71%
Senegal	1,53%	1,44%
Togo	0,18%	0,17%
Other countries	32,87%	33,35%
Class B		
AFRICA RE	4,93%	4,64%
African Development Bank	16,56%	15,61%
TOTAL	100%	100%

Source: Shelter Afrique

Justification of the rating

The rating is based on the following key factors:

- **A new strategy focused on financial stability**

Following the financial crisis that Shelter Afrique has been going through since 2017, the company has redefined its strategy in order to achieve financial stability by 2020 and to maintain this financial stability throughout the period of the strategic plan n.

A new strategy for the period 2019-2023 was thus approved at the end of 2018.

This strategy was intended to enable Shelter Afrique to.

Shelter Afrique also aims to increase shareholder value creation and development impact and ensure the sustainability of the organization.

In line with Shelter Afrique's vision of promoting low-cost housing in Africa, the new strategy includes a focus on

[1]CDC Company plc (a Commonwealth Development Corporation Group) is a British development finance institution that has contributed to formation of Shelter Afrique in 1982.

Public Private Partnerships (PPPs) with member countries in order to secure its activities and have higher development impact.

At the end of 2019, the first results of this strategy are perceptible through agreements with Côte d'Ivoire, Rwanda and Liberia. However, projects in these countries have not yet begun.

The increase in share capital remains constrained by the low level of annual shareholder contributions; in 2019, shareholders made total contributions of only US$9.8 million (US$5.56 million in 2018), out of a target of US$20 million.

To help reduce the volume of non-performing loans (NPLs), which is one of the main strategic areas, a unit in charge of NPL collection was set up in February 2018. This unit called *Special Operations Unit* (SOU) has an annual NPL reduction target of at least US$15 million, in order to achieve an NPL rate of less than 15% by 2023.

As a result, in December 2019, the volume of NPLs was down by 12% to US$ 95 million, compared to US$ 108 million as at 31 December 2019.

the implementation of the strategy remains quite timid at end 2019, even tho efforts to improve the portfolio cleansing strategy are observed.

In addition, despite the actions implemented to start new business, the resumption of lending activities was slow in 2019, with the achievement of new lending targets of 58%.

However, the current economic context linked to the Covid-19 pandemic does not seem conducive to the achievement of Shelter Afrique's objectives over the planned period. Forecasts have been readjusted to take into account the progress of the crisis in 2020.

The ability of management to achieve its objectives is still to be demonstrated.

- **Readjustment of 2020 forecasts in the context of Covid-19**

As a result of the Covid-19 worldwide health crisis, the economies are experiencing a slowdown.

To curb the spread of the virus, many countries including Kenya, have taken drastic decisions in addition to the health provisions of the World Health Organization (WHO), such as closing their borders, curfew measures and population lockdown.

Regarding Shelter Afrique, whose main office is in Kenya (with 3 regional offices) this pandemic has led to the interruption of construction activities (for its customers) from March 2020 to May 2020 and the suspension of trips and travels for project evaluation and monitoring .

Taking into account the impact of the general economic slowdown in the countries covered, forecasts for the year 2020 have been revised.

Thus, the cleaning up of the portfolio should slow down. The annual reduction of NPLs, previously set at US$15 million, has been revalued at US$7 million in 2020. In addition, the annual shareholder contribution target has been lowered from USD 20 million to US$ 10 million in 2020.

Regarding the recovery of performing loans, the target has reduced from US$40 million to US$34 million. As for new business, disbursement targets have also been reduced from US$77.52 million to US$57.4 million.

The revised budget for 2020 is based on the moderate risk scenario and takes into account the impacts resulting from the economic crisis related to covid-19; Shelter Afrique's strategic objectives related to financial viability should be delayed.

- **Successful negotiation of the debt restructuring agreement (DRA) with main creditors**

In view of Shelter-Afrique's liquidity constraints following the financial crisis of 2017 and the risks of default on its loans, a standstill agreement was negotiated with the lenders.

This agreement has led to the suspension of new loan approvals by Shelter-Afrique to help the company redefine its development strategy, with a view to resuming its activities under the best possible conditions. The Standstill agreement has been in effect from May 2017 to December 2018.

In order to mitigate liquidity risk and in line with its financial stability objective, Shelter Afrique obtained letters of intent in 2019, in order to restructure its debt. The restructuring agreement was signed in July 2019 with the two (2) commercial banks and in May 2020 with the six (6) DFIs. These lenders represent 73% of outstanding loans at the end of 2019.

Through this Debt Restructuring Agreement (DRA), Shelter Afrique expects to achieve the strategic objective of preserving relationships and creating value for all stakeholders, thanks to a rescheduling of maturities until 2024.

Shelter Afrique has met its commitments deriving from these agreements. The institution has repaid US$ 47.852 million (compliant with the DRA) of the US$ 78.734 million initially scheduled to be repaid in 2019 under the terms of loan agreements.

- **Stronger governance and risk management framework**

Due to shortcomings identified by experts following the internal crisis, it was necessary to reform risk management framework in order to improve portfolio quality and reduce credit losses.

As a consequence, the priority projects in the 2019-2023 strategy include the improvement of the governance framework and the implementation of a new risk management policy.

Thus, in March 2019, a policy known as the *Enterprise Risk & Opportunity Management Framework (EROM)*, aiming to establish an organizational context to identify and manage Shelter Afrique's exposures to risks, was deployed with the following basic principles:

- defining a risk appetite policy;
- strengthening the culture of risk;
- developing policies for managing the significant risks affecting the Company.

The new risk management scheme has the same general characteristics as that recommended by the WAEMU regulatory framework for credit institutions, which is based on international best practices in terms of risk management.

To better monitor the recovery strategy, the Board of Directors has established 4 substantive committees: Audit, Risk & Finance, Human Resource & Governance, Investment Committee and Strategy Committee.

To support the strengthening of the governance framework, Shelter Afrique obtained, in February 2020, the ISO 9001 version 2015 certification from Bureau Veritas Kenya Limited, concerning the improvement of internal control procedures.

Since December 2019, Oracle's Loan Management Module (LMS) has been implemented to enhance the automation of loan management.

Also, in response to the COVID-19 health crisis, Shelter-Afrique developed and updated in May 2020 its Business Continuity Plan, managed by a Crisis Management Team headed by the CEO. The priorities of this plan were to define the crisis and its magnitude, then to provide crisis management guidelines.

- **Lower risk of management disruption**

Shelter Afrique's management has remained unchanged with Mr. Andrew CHIMPHONDAH leading the company as Chief Executive Officer since September 2018.

Since the arrival of the new Management, progress has been made in the execution of the institution's strategic objectives.

For instance, the shareholders' contribution was up 75% in 2019 compared to 2018 and stands at US$9.8 million (US$5.6 million in 2018).

This reflects an improvement in the quality of the Management relations with member countries.

In addition, the Management team is supported by a strategic committee in charge of strengthening the management of the institution.

As a result, the risk of management disruption is reduced, in view of the measures taken to strengthen the governance framework, the establishment of management committees and better staff engagement in the strategy.

- **A timid resumption of business**

Total assets, consisting mainly of loans and advances to customers (59% in 2019 compared to 72% in 2018), continue to decline since 2017, following the suspension of new loan approvals. Total assets thus decline (-18,7%) from US$ 229.432 million in 2018 to US$ 193.132 million in 2019.

The year 2019 is however marked by a timid resumption of activities following organizational changes and new internal processes. New business approvals are below initial targets: projects amounting only US$ 59.457 million have been approved out of a goal of US$ 101.9 million in 2019.

Furthermore, disbursements of US$ 2.722 million have been made out of an objective of US$ 36 million.

This is due to the complexity of the projects and the new risk management procedures.

Net loans have decreased from US$165,187 thousand in 2018 to US$114,635 thousand in 2019, mainly due to loan repayments by customers.

The portion of non-performing and underperforming loans is in slight progression to 65.32% in 2019 (compare to 61.5% in 2018); however, the net value is down from US$ 144.997 million to US$ 121.556 million thanks to SOU.

East Africa, which accounts for 50% of the portfolio of loans and advances to clients, holds 61% of the portfolio of low and non-performing loans.

As at the end of June 2020, approved loans amount to US$14,300 thousand, with US$4,300 thousand have already been disbursed.

Regarding the slow pace of approval and disbursement of loans to customers, the expected development of the activity, with a view to achieving financial balance, will not be possible in the medium term.

- **Net income remains negative despite an improvement**

In a context of suspension of activities (2017 and 2018) before a slow resumption in 2019 with the approval of new loans, interest charges have declined more compared to income interest, in 2019.

Indeed, the restructuring of its debt thanks to the DRA with lenders, reduces the pressure of loan repayments and financial charges on its cash.

Thus the interest margin is increasing by 1.001 million US$ to reach US$ 8.634 million in 2019 (for a forecast of US$ 11.425 million). Likewise, the net banking income is up 8% in 2019, after a decrease of 33% in 2018 and stands at US$ 10.198 million,

However, this improvement was not sufficient to cover operating expenses and provisions for trade receivables, despite the good performance recorded.

Provisions and impairments on loans and advances to customers fell by 56% in 2019, in connection with the recovery of NPLs by the SOU, for a total amount of US$ 2.043 million in 2019 (compared to US$ 12 thousand in 2018), the SOU is committed to recover NPLs up to US$ 15 million each year.

In 2019, the provision on loans was down to US$ 4.399 million (compared to US$ 9.917 million in 2018, when IFRS 9 implementation started).

The net result therefore remains negative but has improved from US$ -9.250 million in 2018 to US$ -1.259 million in 2019 due to lower impairment charge on loans and advances to customers in 2019, the performance achieved in Non-Performing Loans (NPL) recovery, cost efficiency and foreign exchange gains.

Net result is expected to remain negative at -3.32 million dollars if the crisis related to COVID 19 lasts only 6 months (March to September 2020).

- **Slow improvement of shareholders' equity**

As part of the resumption of Shelter Afrique's activities, the Management is working to mobilise financial resources from its members, of which 90% are intended to finance loans to its clients.

In this context, the capital increases carried out in 2018 and 2019 are respectively US$ 5.564 million and US$ 9.964 million, bearing in mind that the objective was to raise at least US$ 20 million per year over the period of implementation of the new strategy.

Capital adequacy ratio is thus slightly up from 26.6% in 2018 to 27.54% in 2019, with a minimum of 25% set by the Board of Directors according to Basel standards.

In this context of health crisis due to COVID 19, US$ 1.6 million was mobilized out of a target reduced to US$ 10 million for the year 2020.

Background and governance

- **Background**

Housing in African countries has always been a topical issue. In fact, high population growth and urbanization in African countries faced with the low housing supply has always been a challenge for governments.

According to the World Bank, the housing deficit in the WAEMU zone remains significant with an estimated 43 million people living below poverty line. At least 800,000 new housing units are needed every year to fill the housing gap in the WAEMU zone.

As a general response to Africa's development challenges, particularly those related to rapid urbanization, the African Union has developed a strategic framework for achieving inclusive and sustainable development of the continent through Agenda 2063.

The programs identified in the master plan will support Africa's economic growth and development and also lead to rapid transformation of the continent.

In addition, the goals of Agenda 2063 are linked to the UN sustainable development goals (SDG).

The primary goal of Agenda 2063 - "high standard of living, quality of life and well-being for all citizens" - aims to achieve SDG 11, which aims to "ensure that cities and human settlements are inclusive, safe, resilient and sustainable". One of the priority areas of this goal is the construction of modern, affordable and habitable housing and quality basic services.

As a result, the long-term development programs of African countries need to be adapted to take into account the structural transformations observed on the continent. Thus, urban development projects through affordable housing construction projects are announced in the programs of the candidates for the presidential elections in WAEMU countries.

In this context, Shelter Afrique has reviewed its strategy to seize opportunities related to Public Private Partnerships with African governments for the promotion of affordable housing. This collaboration represents a more secure segment with a stronger development impact, in line with Shelter Afrique's vision to position itself as a leading player in affordable housing finance in Africa.

- **Major events**

Shelter-Afrique's business has been marked by the events below from 2018 to date:

<u>Year 2018</u>

- January: Business Daily report on complaints from buyers of the 240 houses in the Everest Park project concerning construction defects. Repairs were carried out in 2019, under the supervision of the Kenya National Building Inspectorate;
- 1st January: Application of IFRS 9 - Financial Instruments, which introduces a new method for measuring financial assets according to the following categories:
  - ✓ FVOCI - Fair Value through Other Comprehensive Income;
  - ✓ FVTPL - Fair Value through Profit and Loss; or
  - ✓ Amortized Cost.

In the case of Shelter Afrique, the standard applies to loans and advances to customers, bank deposits and equity securities. Bank deposits and loans and advances to customers are valued at amortized cost, while equity investments are valued at FVOCI.

The application of the new standard introduces the requirement for an entity to determine the provision for impairment of financial instruments on the basis of expected credit losses, rather than on the basis of the loss model previously applied under IAS 39.

The initial application of the standard by Shelter Afrique resulted in negative retained earnings of US$ 21.2 million on 1st January 2018. As a result, opening shareholders' equity stood at US$ 110.5 million as at 1st January 2018 (compared to US$ 131.7 million before the entry into force of IFRS 9).

- 1st February: *Special Operations Unit* (SOU) set up in the operational department, in order to boost the recovery of non-performing loans. In December 2019, the volume of NPLs was down 12% to US$ 95 million (compared to US$ 108 million as at 31st December 2018);
- 16th March: Publication by Shelter-Afrique of the three (3) winners of the “5,000 for 5,000” Real Estate Contest. Shelter-Afrique subsequently committed to the development of 5,000 housing units across the continent based on the models selected. However, this second phase has been postponed due to the suspension of Shelter Afrique's activities since 2017;
- 27th March: Appointment of a new Chairman of the Board of Directors, Mr. Daniel NGHIDINUA from Namibia, in replacement of Mr. Jean Paul MISSI from Cameroon.
- 31st July: Standstill Agreement signed by the main donors: Agence Française de Développement (AFD), European Investment Bank (EIB), KFW BankeGruppe, Islamic Corporation for the Development of the Private Sector (ICD), West African Development Bank (BOAD), International Bank of Ghana (GHIB), and African Development Bank (AfDB);
- July: Mr Andrew CHIMPONDAH[2] appointed as the new Managing Director of Shelter Afrique, effective from September 2018;
- December: End of mandate of Directors YAKUB, Melei ANIKPO, Aida MUNANO, and of the independent Director Hardy PEMHIWA, who were replaced by four (4) new Directors: Dr. Theresa TURFOUR, Mr. DAMMA, Mr. Charles Mwaura HINGA and Dr. Steve MAINDA (an independent Director).

Year 2019

- 1st January: Inception of IFRS 16 relating to leases. The application of IFRS 16 has changed the method of accounting for leases, previously classified in the off-balance sheet section as operating leases under IAS 17. The application of this new standard had no significant effect on Shelter Afrique's financial statements;
- March: New managers appointed following resignation: Chief Operations Officer, Head of New Business, Head of Enterprise Risk Management, Manager, Policy and Research;
- March: New risk management policy called Risk & Opportunity Management Framework (EROM) approved by the Board;
- May: Shelter-Afrique invested a total of 200 million Kenyan shillings (US$2 million) in Kenya Mortgage Refinance Corporation (KMRC), a Kenyan mortgage refinancing company dedicated to increasing the supply of affordable housing in Kenya[3];
- June: Annual General Meeting of Shelter-Afrique in Marrakech, Morocco. Agreement signed with the Ministry of Construction, Housing and Urban Planning of Côte d'Ivoire for the construction of 3000 housing units in Abidjan;
- June: Shelter-Afrique and the Development Bank of Rwanda (BRD) launched the Rugarama Park Estate project, involving the construction of 2,000 affordable housing units in the Nyamirambo sector, Nyarugenge district, at an estimated cost of US$ 131 million;
- July 2019: Launch of Everest Park project Phase 2;
- July: MOU signed with the Terwilliger Center for Innovation in Shelter (TCIS), in order for TCIS to raise capital for affordable housing. The partnership will be extended to housing finance institutions in Kenya and 43 other countries where Shelter Afrique operates;
- July: MOU signed with the National Housing Authority of Liberia to build 1,000 low-cost housing units as part of the Government of Liberia's housing construction program involving a total of 80,000 units;
- August: At the 2019 Abuja International Housing Show, Shelter-Afrique won the Pan-African Affordable Housing Developer of the Year Award from the Nigeria Housing Awards (NHA). This award recognizes the organization's contribution to the provision of affordable housing and the reduction of housing in slums in many African countries.

Year 2020

- 18 February: ISO 9001 version 2015 certification obtained from Bureau Veritas Kenya Limited, valid for 3 years;
- February 2020: Line of credit of US$ 11.6 million granted to the Senegalese group Teyliom[4], for the financing of real estate projects in the cities of Bambilor Diamniadio (new urban center);

2 Mr. Andew CHIMPHONDAH was appointed as Chief Executive Officer in July 2018 by the Board of Directors of Shelter Afrique following the resignation of former Chief Executive Officer Mr. Femy Adewolé. This position has been filled on an interim basis by the Administrative and Finance Officer, Mr. Kingsley. Mr. Chimphondah's effectively took his position as Chief Executive Officer of Shelter Afrique in September 2018.

3 Kenya Mortgage Refinance Corporation, (KMRC) which has just obtained approval from the Kenyan Central Bank, has among its shareholders the Kenyan government and more than 20 local commercial banks. The mortgage refinancing company is also expected to raise funds in the markets, including mortgage-backed debt securities. World Bank will provide KRMC with debt amounts $160 millions. The funds raised will then be lent to banks, which will use their mortgage contracts with clients as collateral.

4 Teyliom is an African group with a strong presence in a variety of business sectors in West and Central Africa. Teyliom aims to become a reference investor for the African continent.

- 30 April: The Shelter Afrique Foundation[5] donated relief supplies to more than 4,000 beneficiaries in Cote d'Ivoire, Nigeria and Kenya, where regional offices are located during the Covid19 crisis.
- 1 million keynian shillings (US$ 9,318) grant to the Kenya Medical Research Institute (KEMRI)[6] by the Shelter Afrique Foundation, to help the institute strengthen its testing capacity in the fight against the COVID 19 pandemic;
- May: Debt Restructuring Agreement (DRA) signed between Shelter Afrique and the six (6) Development Financial Institutions (DFI).
- September:

  Nigeria has pledged US$ 29.3 million for housing development. The country has paid a first installment of the amount of US$ 9.4 million; which places the country in second position in the ranking of Shelter Afrique shareholders, with 14.77% after Kenya (14.87%) and ahead of the AfDB (14.28%).

  MOU signed with two Chinese Construction Companies, Amberton International Holdings and Sichuan Huashi Enterprise Corporations EA LTD, which aims to intensify the development of large-scale affordable housing projects in Kenya and also in other countries members of Shelter-Afrique.

  Shelter Afrique signed a strategic partnership with the World Bank, and will benefit from technical assistance that is worth 200,000 euros (JCAP[7]).

- **Governance**

Shelter Afrique's Board of Directors comprises 11 directors representing the two classes (Class A and Class B) of shareholders in the company and independent directors :

- Category A, composed of 44 African countries holding 79.75% of the capital in 2019 against 78.54% in 2018;
- Category B composed of two pan-African institutions: the African Development Bank (AfDB) and Africa-Re, holding 20.25% of the capital against 21.49% in 2018.

These shareholders have committed to pay their contributions for the revival of Shelter Afrique's activities. Indeed, in the absence of new borrowings, capital payments remain the only source of funding for activities

In 2018, the shareholders contributed US$ 5.56 million.

In 2019, the contribution of shareholders was slightly higher but remains low and still far below the annual target of US$ 20 million. However, shareholder contributions are up 75% from 2018 to US$9.8 million.

Table 3: Shareholder Payments

Country (in dollars US)	2018 Payments	2019 Payments	2020 Payments*
Rwanda	646 532	340 147	340 147
Morocco	330 001	421 289	815 543
Mali		916 661	
Uganda	215 559	434 021	50 970
Liberia	499 925		
Lesotho		2 202 177	
Cote d'Ivoire		1 689 157	
Kenya	3 514 546	3 232 247	
Namibia	355 449	562 125	
Zimbabwe			358 398
Swaziland			26 968
TOTAL	5 562 012	9 797 824	1 592 025

Status as at end of April 2020
Source: Shelter Afrique

The shareholders' contribution of US$ 9.8 million in 2019 has increased Shelter Afrique's paid-up capital from US$ 91,760 million in 2018 to US$ 97,388 million in 2019.

Shareholder arrears thus fell by the same amount to US$ 260 million.

Due to the negative impact of Covid-19 on the economic activity in 2020, the objectives in terms of shareholder contribution collection have been revised downwards and are set at USD 10 million per year.

As at the end of April 2020, shareholders had paid contributions of US$ 1.6 million.

The Board of Directors

The Board of Directors, unchanged in 2019, is chaired by Mr. Matthews Daniel NGHIDINUA with Mr. Ali BOULARES as vice- chairman.

It is composed of 11 directors and their alternates:

- 7 lead directors and 7 alternate directors for Class A shareholders;
- 2 lead directors and 2 alternate directors for Class B shareholders;
- and 2 independent directors who are professionals in the real estate sector.

[5] The establishment of the Shelter Afrique Foundation was approved by the Annual General Meeting in June 2013. It was registered in Mauritius; but in 2020, the foundation has been deregistered from Mauritius and now part of SHAF. The Foundation receives seed money through profit allocations from Shelter Afrique. The Foundation's objective is to mobilize funds to reduce urban poverty, focusing specifically on providing grants and concessional financing for housing projects for businesses with very low-income and charitable projects.

[6] Kenya Medical Research Institute (KEMRI) is a public corporation established under the Science and Technology (Amendment) Act of 1979 as the national agency responsible for health research in Kenya.

7 The JCAP program is an initiative of the World Bank Group (WBG) aimed at creating deep, efficient, and well-regulated local capital markets for expanded access to long-term, local-currency finance in key areas such as climate, housing and infrastructure.

Table 4: Composition of Shelter Afrique's Board of Directors in 2019

Lead Directors	Alternate Directors	Countries/Institutions represented	% Capital
Class A Shareholders (Countries)			
Mr. Nghidinua Mathews Daniel (Namibia)	Mrs. Dorcas W. Okalany (Uganda)	Botswana, Lesotho, Malawi, Namibia, Rwanda, Tanzania, Uganda,Zambia	11.99%
Mr. Celestin Koalla	Mr. Brama Diarra (Mali)	Burkina Faso, Burundi, Central African Republic, Chad, Djibouti, Equatorial Guinea, Guinea Bissau, Ivory Coast, Mali, Senegal	14.48%
Dr. Theresa Tufour (Ghana)	Mr. Ouadja Kossi Gbati (Togo)	Ghana, Guinea, Cape Verde, Togo	7.10%
Mr. A. Boulares (Algeria)	Mr. El Alj Toufik (Morocco)	Algeria, Mauritania, Morocco, Tunisia	8.34%
Mr. Jean-Paul Missi (Cameroon)	Mrs. Moussavou Ida Rachel (Gabon)	Benin, Congo, Democratic Republic of Congo, Cameroon, Gabon, Madagascar, Mauritius, Niger, Seychelles, Sao Tome & Principe	8.13%
Dr. P.M. Tunde Reis (Nigeria)	Mr. Muhamed Manjang (Gambia)	Gambia, Liberia, Nigeria, Sierra Leone	11.72%
Mr. Charles Hinga Mwaura (Kenya)	Eng. G.S. Mlilo (Zimbabwe)	Kenya, Somalia, Swaziland, Zimbabwe	17.99%
Class B Shareholders (Institutions)			
Mr. Ephraim Kiiza	Mr. Seydou Kone	African Reinsurance Corporation	4.64%
Ms. Soula A.I. Proxenos	Mr. Etienne Nkoa	African Development Bank (AfDB)	15.61%
Independent Directors			
Dr. Stephen Mainda			
Dr. Omodele R. N. Jones			

Source: Shelter Afrique

The Board of Directors meets regularly, at least three times a year, to review the business and the effective implementation of the company's strategic plan.

During 2019, the Board held four regular meetings focused primarily on the development of the business recovery strategy.

Since 2018, the Board of Directors is assisted by 4 committees, as a means to strengthen management supervision and risk management. These committees inspired from international best practices (Basel Committee, in particular) include:

- the Audit, Risks and Finance Committee;
- the Investment Committee;
- the Human Resources and Corporate Governance Committee;
- the Strategic Committee

With a view to support and increase the efficiency of the restructuring strategy aiming to cleanse the portfolio, the management committees are as follows : Asset-Liability Commitee, Loans Commitee, Loans Monitoring Commitee, IT Steering Commitee.

These committees are responsible for monitoring: the portfolio, credit approvals, concentration risk and NPLs, as well as regulatory aspects concerning credit, policies and governance.

A new charter has been adopted by the Board of Directors which sets out reinforced operating rules and specifies the duties of the Board and its committees.

Therefore, in February 2020, Shelter Afrique has obtained ISO 9001 version 2015 certification from Bureau Veritas Kenya Limited concerning the improvement of internal control procedures.

Management

The composition of Shelter Afrique's Management has remained unchanged in 2019.

Shelter Afrique continues to be headed by Mr Andrew CHIMPHONDAH, who has been Chief Executive Officer since September 2018.

As a result of the cultural change program developed in 2019 to re-motivate staff and strengthen their commitment, improvements in staff performance are being observed.

In fact, the program included awareness-raising, discussion and training sessions organized with staff related to the company's performance and to working conditions. This interaction has also helped develop team spirit and leadership through communication with top management.

This reflects a low risk of management disruption.

Thus, the staff engagement rate[8] is 60% in 2019 compared to 40% in 2018, which has resulted in a better performance for the year 2019, especially in terms of portfolio recovery and control of the evolution of expenses.

Shelter Afrique's net result, although still negative as at 31 December 2019, has improved from -US$ 9.250 million in 2018 to -US$ 1.259 million in 2019.

Risk management and internal control

Following the financial crisis experienced between 2016 and 2017, Shelter Afrique's risk management and internal control system was strengthened to ensure that duties are carried out in the best possible conditions, in accordance with the strategy.

Thus, in March 2019, a new risk management policy, called *Risk & Opportunity Management Framework (EROM*), was approved by the Board of Directors in application of the 2019-2023 strategy, to strengthen the company's governance framework. As Shelter-Afrique is not under the supervision of any regulatory body, the development of the risk management framework relied on best practices from international regulations such as: ISO 31000, COSO and Basel 3.

The EROM is therefore based on the following principles:

[8] Staff engagement rates are established by sub-contracting companies that conduct online surveys and calculate the scores.

- defining a risk appetite policy;
- building the culture of risk;
- policies for managing the types of risks affecting the Company.

The risk governance structure defined in the EROM comprises three levels of control which are implemented by: firstly, the operational departments, secondly, the Department in charge of Risk Management (ERM) and thirdly, the Internal Audit Department which carries out independent controls.

This structure is reinforced by the establishment of the four Board committees, as well as by the existence of several committees at Management level to ensure that each risk category is appropriately handled. These committees include the following:

- Executive Committee, made up of all the Managers and Heads of Departments;
- Loans Committee (LC);
- Asset and Liability Committee (ALCO).

The risk management process is under the responsibility of the Board of Directors, through the Audit and Risk Committee. The process and risk monitoring are handled by the Risk Management Department, which is responsible for applying and updating the EROM, on a daily basis.

In 2019, Shelter Afrique's internal audit team was reinforced with a Nairobi-based firm, PKF, on technical aspects and audit of IT governance.

♦ Operational risk

As part of the process of strengthening risk management, in connection with the development of the EROM, all procedures related to operational risk management were reviewed in 2018 and 2019.

To achieve these objectives in an effective and more efficient manner, Shelter Afrique is automating risk management activities with the implementation of a customized risk management software. Thus, the new policy implies that heads of department report all risks affecting them to the Risk Management Department, based on a process called Risk and Control Self-Assessment (RCSA).

The review was accompanied by staff training to improve the identification and management of risks associated with their activity.

On 18 February 2020 Shelter Afrique obtained the ISO 9001 version 2015 certification, from Bureau Veritas Kenya Limited, valid for 3 years. Annual audits will be carried out to ensure compliance with standard requirements.

An information systems audit was conducted in accordance with IPPF 2017 for the period running from 1 July 2018 to 30 June 2019.

In addition, Shelter Afrique complies with international standards COBIT 5[9] and GTAG 8[10] relating to the quality of the information system.

Thanks to the improvements in risk management, operational risk went from moderate in 2018 to low in 2019.

However, the risk governance framework thus developed will have to be tested and proven in a business situation.

Shelter Afrique Business Continuity Plan

In response to the COVID-19 health crisis, Shelter-Afrique developed in May 2020 a Business Continuity Plan with the following objectives:

- minimize financial losses;
- protect the company in case of a disaster;
- meet commitments to the company's stakeholders;
- mitigate the adverse effects that disruptions may have on institutional strategy, reputation, operations, liquidity, credit quality, market position and the ability to remain in compliance with applicable laws and regulations.

Changes in Shelter Afrique's business processes and operating environment require the company to maintain an updated BCP.

As part of the deployment of its Business Continuity Plan, two main sub-components were adopted by the Board of Directors: the crisis management plan and the emergency measures plan.

With the Covid-19 health crisis, considered as a moderate risk, the objectives of Shelter Afrique were readjusted in 2020, up to 9 months to end in December 2020. The impacts of the pandemic on Shelter Afrique's activity are monitored, evaluated and analyzed to prevent them and re-evaluate the budget if the need arises; the main objective of the institution being to achieve financial sustainability in the medium and long term.

♦ Credit risk

In 2019, new lending, investment and credit management procedures were developed and approved by the Board of Directors.

These new procedures aim to achieve better credit risk management to support the launch of Shelter Afrique's activities planned for 2019.

In fact, these new procedures are focused on improving the quality of assets through a more rigorous selection of projects.

The reform of the credit risk management framework has been placed under the supervision of the Risk Management Department and the Audit, Risks and Finance Committee.

As part of the restructuring exercise, risk management has been integrated into the activities and procedures

[9] A benchmark for effective information technology governance and management.

[10] Information Technology Audit Guide

implemented at the departments in charge of portfolio management, i.e. mainly: "*New Business*", "*Business Operations*", "*Loan Management Unit*".

The automation of the company's risk management activities with the implementation of risk management software enables the heads of department to report to the risk management department all risks affecting them.

Also, to improve the quality of the portfolio and better monitor non-performing loans, in 2018 the company set up the Special Operations Unit (SOU) in charge of monitoring and recovering non-performing loans (NPL).

The SOU strategy aims to ensure that project monitoring is carried out through a thorough review of the loan portfolio before any disbursement or request for additional funds.

The goal set for the SOU by the Board of Directors is to reduce the volume of non-performing loans (NPLs) by at least US$ 15 million per annum to bring NPL rate below 15% by 2023.

In December 2019, Shelter Afrique's NPL rate was however up 5 points to 51%, due to:

- a 26% decrease in the loan portfolio from US$ 235 million in December 2018 to US$186 million in December 2019;
- and the volume of non-performing loans, which remains high in 2019 at US$ 95 million, albeit down from its 2018 level of US$ 108 million.

In a context of a gradual resumption of lending activity, the priority remains the consolidation of the portfolio and the pursuit of the recovery of pending cases. Since December 2019, the Loan Management Module (LMS) has been implemented by Oracle to strengthen the automation of loan management.

Also, migration from Oracle version 11.2 to 12.6, consisted in the implementation of 14 modules across the entire system of the company for 6 months, was planned for November 2019.

However, after an assessment by Oracle showing that this project requires more resources than budgeted, it has been postponed.

Automation of the budgeting and financial reporting process is underway.

Due to the Covid-19 crisis, NPL reduction targets have been revised downwards to US$7 million per year.

♦ Market risk

No change to the market risk management has been noted in 2019. Market risk is mainly related to currency and interest rate risk. In fact, exchange rate fluctuations can negatively affect the Company's financial results.

Shelter-Afrique's main operating currency being the US dollar, the company is primarily exposed to fluctuations in this currency.

Due to its business with many African countries, Shelter Afrique is also exposed to fluctuations of the following currencies: Kenyan shilling, Euro, CFA Franc, Naira and Rand and any other additional currency approved by the Board of Directors.

The objective of the market risk management policy is therefore to reduce the risk of impairment of cash flows in other currencies by:

- matching loan currencies with those of resources collected;
- investing the proceeds of loans and liability management operations in the currencies in which they are contracted, in order to avoid exposure to exchange rates resulting from the translation of currencies;
- carrying out foreign exchange transactions for hedging purposes or selling any excess foreign currency.

The Treasury Department is responsible for managing Shelter Afrique's foreign exchange risks. It determines the amount, duration and hedging method required to offset foreign exchange positions.

The Audit, Risk and Finance Committee is responsible for monitoring variations of interest rate, control and compliance with limits. It is assisted by the Asset and Liability Committee and the Loans Committee.

♦ Reputational risk

To protect the Company's reputation, which had been tarnished several years ago due to governance issues, the new General Management has placed emphasis on developing a reputation management policy based on accountability and integrity in all dealings of staff with external parties. The Policy Research & Partnership Department is in charge of managing this policy.

Shelter Afrique has sought the assistance of the social consultancy firm Media Fast in developing appropriate management strategies on the institution's public interest issues that could affect its reputation.

In addition, Shelter Afrique has subscribed to the Meltwater monitoring tool[11], a platform that updates all media on the company's news around the world.

Ongoing communication with key stakeholders (shareholders and institutions) has contributed to restoring Shelter Afrique's reputation as well as that of the Center of Excellence[12], in line with the institution's new vision.

In August 2019, Shelter-Afrique received the African Affordable Housing Developer of the Year 2019 Award from the Nigeria Housing Awards (NHA).

Shelter Afrique's reputational risk is moderate.

[11] Meltwater is a social media web monitoring and analysis platform that provides visibility on everything that is said about a brand or a competitive universe, whether on social media or in online press.

[12] The Center of Excellence is a department of Shelter Afrique whose main role is to search for strong partnerships sharing the same vision as the company. It plays an advocacy role in defending affordable housing developments in Member States.

- Capital adequacy

Capital paid by shareholders in 2019 amounts to US$9.8 million compared to US$5.7 million in 2018, for an annual target of US$ 20 million; success rate is 49% in 2019 compared to 29% in 2018.

Paid-up capital thus increases by 61%, from US$ 91,760 million in 2018 to US$ 97,388 million in 2019.

This increase in the company's funds has increased the minimum capital adequacy ratio (Capital Adequacy Ratio - CAR) in 2019 from 24% to 28%, with an internal limit set at 25%.

This ratio helps to cover potential losses and maintain the financial strength of the institution. It is monitored regularly by Executive Management and quarterly by the Board of Directors.

- Liquidity risk

Assisted by the Asset and Liability Committee, the Board of Directors has developed a liquidity risk management framework.

In fact, the liquidity risk management strategy focuses on the composition of assets and liabilities while diversifying liabilities in order to avoid concentration in a single funding source.

The two main ratios monitored are:

- Liquidity ratio, which is the ratio of (short- term) liquid assets to total assets. This ratio must be higher than 20%;
- And Liquidity Coverage Ratio (LCR) under the Basel III standards, which is the requirement that the amount of high-quality liquid assets be sufficient to fund cash outflows for 30 days. This ratio must be greater than or equal to 100%.

The Treasury Department is in charge of liquidity risk management.

Liquidity ratio increased in December 2019 to 29% compared to 19% in December 2018 .

One of Shelter Afrique's strategic objectives is to ensure financial viability by 2020 and financial sustainability by 2023.

As a result, Shelter Afrique raises equity capital from its shareholders, who are the company's main source of funding, since the start of the Standstill in 2018.

In line with Standstill, and with a view to reducing the pressure of debt repayments on its available cash Shelter Afrique signed a debt restructuring agreement in July 2019 with commercial banks and in May 2020 with development financial institutions.

The restructuring agreement has reduced the annual repayments for 2019; the Company made a total loan repayment of US$47.852 million (-39%) in 2019 under the DRA, compared to total repayments initially planned of US$ 78.734 million under the terms of loan agreements.

In addition, thanks to trade receivables collected by the SOU for US $ 47 million in 2019, there is an increase in the liquidity of the company.

The liquidity risk remains high in a context of slow recovery of activities and the economic crisis linked to Covid19.

- **Vision and Strategy**

Shelter Afrique's vision is to position itself as a leading player in affordable housing finance in Africa.

However, with the financial crisis of 2017 the institution was facing difficulties in meeting its obligations to lenders and borrowers. To reduce the impact of this crisis on its balance in the short and medium term, a Standstill Agreement was negotiated with lenders.

The standstill period has enabled Shelter Afrique to redefine its development strategy, to help resume lending activities under the best conditions, including the reorganization of the departments in charge of operations and the reform of the risk management framework.

Thus, a new strategy for 2019-2023 has been deployed since 2019 with the arrival of the new Management, based on the following three strategic objectives:

- Strategic Objective 1: achieve financial stability;
- Strategic Objective 2: increase shareholder value creation and development impact;
- Strategic Objective 3: achieve the sustainability of the organization.

Table 5: Shelter-Afrique 2019-2023 Strategy

Strategic areas	Objectives
Financial stability	Diversify the capital structure by 2020
	Raise equity capital for a minimum annual amount of US$20 million
	Achieve fiscal sustainability by 2020 and financial sustainability by 2023
	Mobilize loans for a minimum amount of US$200 million by 2023
	Achieve a rating equivalent to Baa3 (Moody's) by 2023
	The objective is to reduce non-performing loans (NPL) by at least US$15 million per year to reach an NPL rate below 15% by 2023.
Increase shareholder value creation and development impact	Improve customer satisfaction to at least 80%.[13]
	Implement a customer-centric business model
	Become the preferred provider of affordable housing services and financial solutions
	Create a Shelter Afrique Center of Excellence[14]
	Establishing strategic partnerships with financial institutions, research institutes and industries

[13] Customer satisfaction is achieved through an online survey. The results and the rating are calculated on an average basis

[14] It is a department of SHAF whose main role is to conduct research on low-cost housing and to make the research accessible through the platform (CoE). It is in charge of finding strong partnerships sharing the same vision as the company. It plays an advocacy role in defending affordable housing developments in Member States.

Sustainability of the organization.	Improve staff performance and increase engagement to 75%[15] by 2019 through continuous capacity building, team building and performance-related pay
	Attract, retain and develop talent
	Comply with the King IV Corporate Governance Code[16] by 2023
	Implement an Enterprise Risk and Opportunity Framework (EROM) by 2019
	Rely on technology to drive the business.

Implementation of the strategic plan in 2019

In the first year of implementation of the strategy, the following achievements were observed:

Financial stability

The financial stability and viability of Shelter Afrique are its ability to generate financial resources for the continuity of its activity in the medium and long term. Achieving this objective will generate a positive result.

The institution has not yet achieved this objective. However, the loss for the year has dropped from US$ 9,249,908 in 2018 to US$ 1,258,829 in 2019.

Below are the first results of this strategy:

- the shareholders' contribution to the capital increase of USD 9.8 million in 2019 (compared to USD 5.6 million in 2018) is up 75% compared to 2018, but remains well below the target of USD 20 million;
- NPL's volume is down US$13 million (or 12%) to US$95 million in December 2019 from US$108 million in December 2018. The objective is to reach an NPL level representing 15% of the portfolio by 2021.

Increase shareholder value creation and development impact

- In April 2019 Shelter Afrique opened a Center of Excellence (CoE), which is part of the Shelter Afrique Foundation. The CoE's mission is to provide guidance and manage policies on affordable housing in Africa. The Center also provides training to stakeholders (States, Investors, Commercial Banks) on the topic of public and private partnerships (PPP). The first training session took place in April 2019;
- Start of discussions for Public Private Partnerships between Shelter Afrique and the governments of Cote d'Ivoire, Liberia and Rwanda.

Sustainability of the organization.

- In March 2019 the Board of Directors approved the implementation of a new risk management policy known as the Risk & Opportunity Management Framework (EROM).
- In February 2020, Shelter Afrique obtained ISO 9001 version 2015 certification from Bureau Veritas Kenya Limited for the improvement of internal control procedures.

In general, Shelter Afrique continues to deploy its strategy with progress on the various axes; notably the reduction of NPLs, the increase in shareholder contribution, and impacts in terms of development.

However, the economic consequences related to the Covid-19 health crisis are to be considered as regards the achievement of these objectives over the planned period.

In order to support its strategy, the relationship with the member countries is reinforced. Shelter Afrique also has a portfolio of projects under negotiation and / or finalization, for a total amount of US$ 535.070 million.

The portfolio of potential projects to be financed by Shelter Afrique until 2023 is as follows:

Table 6: Project portfolio until 2023

	Products	%	Number of housing units	Amount in US dollars
1	Credit lines	58%	11 148,5	312 300 000
2	Project Financce (PF)/ Public Private Partnership (PPP)	39%	28 980,0	209 770 753
3	Shareholding	2%		13 000 000
	Total	100%	40 129	535 070 753

Source: Shelter Afrique

In view of the slow recovery of activities since 2018, and the slowdown in economic activities due to the Covid19 pandemic, it seems unlikely that Shelter-Afrique will effectively implement the strategy as defined and achieve, in the medium term, its objective of financial stability.

Socio-economic environment in WAEMU

Shelter Afrique operates in 44 members countries including those of the UEMOA zone.

The West African Economic and Monetary Union is a sub-regional organization that replaced the West African Monetary Union (WAMU) established in 1962.

WAEMU is composed of eight member states: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.

These Member States share a single currency, the Franc of the African Financial Community (FCFA), issued by the Central Bank of West African States.

The main object of WAEMU is to achieve the economic and monetary integration of its Member States by strengthening the competitiveness of economic activities in the framework of an open and competitive market and a streamlined and harmonized legal environment.

WAMU's bodies include the following:

- the Conference of Heads of State and Government;
- the Council of Ministers;

[15] Staff engagement rates are established by sub-contracting companies that conduct online surveys and calculate the scores.

[16] King IV is a South African corporate governance code representing a key element of good corporate citizenship. It promotes transparency in the implementation of corporate governance practices and consideration of all stakeholders of the company in decision-making.

- the Banking Commission;
- the Conseil Régional de l'Epargne Publique et des Marchés Financiers (Regional Council for Public Savings and Financial Markets)

♦ Structure of the economy

In 2019, the economic growth rate of the West African Economic and Monetary Union (WAEMU) was estimated at 6.6% (as in 2018) according to the WAEMU Commission.

Economic activity took place in a context of price stability linked to good agricultural seasons in some Member States. All Member States recorded growth of 4% or more in 2018, with the exception of Guinea Bissau (3.8% in 2018). This good performance of economic activity in the Union can be explained by the positive results recorded in all sectors.

Indeed, the secondary and primary sectors contributed 1.7 and 1.1 points respectively to the Union's GDP in 2019. The tertiary sector went up from CFA 29 408 billion in 2018 to CFA 34 366.4 billion in 2019, up 17%. This increase is mainly driven by wholesale and retail trade (+21%) and other merchant services (+18%).

The secondary sector, up 19% compared to 2018, stands at 17 955.1 billion CFA francs in 2019; it is driven by extractive industries and manufacturing industries, with 31% and 14% growth respectively in 2019.

The primary sector shows the lowest increase in 2019, up 10% from 17 386 billion CFA francs in 2018 to 19 096.8 billion CFA francs in 2019.

Growth rate by country is as follows:

Table 7: GDP growth rate by country

Growth rate	2018	2019
Benin	6,5%	7,6%
Burkina Faso	6,7%	6,0%
Cote d'Ivoire	7,7%	7,5%
Guinea Bissau	3,8%	5,1%
Mali	5,1%	5,6%
Niger	5,2%	6,3%
Senegal	6,8%	6,0%
Togo	4,8%	5,3%
WAEMU	6,6%	6,6%

Source: CRRH-UEMOA

In 2019, Benin moved to the first place (7.6% against 6.5% in 2018) in terms of GDP growth rate ahead of Cote d'Ivoire (7.5% against 7.7% in 2018).

Togo achieved a GDP growth rate of 5.3% (one of the lowest rates in the WAEMU zone), up 0.5 points (4.8% in 2018).

However, the Union’s initially projected GDP growth rate of 6.6% in 2020 might be revised downwards in view of the effects of the Coronavirus health crisis.

[17]In fact, the spread of Covid-19 has forced States to take measures that have an impact on the economy, namely the closure of (air) borders, trade, total or partial lockdown, etc.

The impact of the pandemic on the economy of the WAEMU zone in 2020 is expected to result in the following, among other things:

- a fall in demand for export products (including gold, cocoa, oil, cashew nuts and cotton), which accounted for 64.72% of total exports of goods in 2017;
- a decline in the flow of money transfers by migrants to the WAEMU zone;
- a slowdown in economic activity in several sectors, including hotels, restaurants, entertainment and transport, due to social distancing measures, construction (mainly driven by public investment in socio-economic infrastructure).

The United Nations Conference on Trade and Development (UNCTAD) expects Africa's economic growth to fall to 1.8% in 2020 (initial forecast of 3.6%).

In the WAEMU zone, Senegal, Cote d'Ivoire and Togo were the first to announce plans to support their economies in addition to the measures taken by the Central Bank. They were followed by other countries, namely Burkina Faso, Niger and Mali. The measures taken by the other States essentially boil down to mitigation and prevention (focusing on awareness and the health sector) of Covid-19.

♦ Public finance

WAEMU's total revenue amounts to 16,134.6 billion CFA francs AND is up 18% and represents 20.4% of GDP (compared to 18.6% in 2018). This increase is driven by a 16.4% rise in tax revenues representing 76% of total revenues (2018: CFA 10,576.2 billion; 2019: CFA 12,311.9 billion)

In fact, the States have taken measures to broaden the tax bases, strengthen controls, step up the fight against fraud and interconnect the financial authorities.

Non-tax revenues are up 7.9%, representing 1.9% of GDP in 2019, in link with the collection of license fees on mobile phone companies.

Total expenditure and net lending have increased from CFA francs 16 430.7 billion in 2018 to CFA francs 18 484.5 billion in 2019, up 12.5%; representing 23.4% of GDP. This rise is mainly due to increases in Guinea-Bissau (+22.3%), Mali (+33.5%), Senegal (+16.0%) and Togo (+19.0%). It seems to be driven by capital expenditure, up 12.7% and current expenditure up 10.6%.

The increase in capital expenditure is linked to the continued construction of socio-economic infrastructure contained in the development plans currently being implemented in the Member States. These expenses were

[17] Source: Impact de la CODID-19 sur la Zone UEMOA- Bloomfield -Intelligence

covered 51.6% by internal resources in 2019, compared to 55.2% in 2018.

As at the end of 2019, the overall deficit, based on commitments, including grants, stood at CFA 2 349.9 billion (against CFA 2 758.7 billion in 2018), or 3.0% of GDP. This decline reflects improved revenue collection, combined with better control of public expenditure, especially current expenditure.

In addition, WAEMU had a current account deficit of 5.8% in 2019 against 6.2% in 2018.

In 2020, the fall in sectors directly linked to the influx of tourists and the slowdown in other sectors of activity, induced by the Covid-19 health crisis, will negatively impact the turnover of private sector companies, and by ricochet, the collection of tax revenues.

This situation, in addition to declining revenues, occurs against a backdrop of shrinking demand for agricultural products and low prices, and could greatly increase pressure on the 2020 budgets of the Union's States.

Sectoral cuts are expected to be made to first limit the impact of the decline in revenue collection and secondly the increase in the prevention and action capacities of the health system as a whole.

In addition, pressure on debt service is expected to be strong in view of the IMF's projected share of total debt service as a share of government revenue excluding grants for 2020.

Indeed, given the burden of debt servicing on government revenue (excluding grants) in 2019, the countries that could be most exposed are Togo (65%), Benin (46.2%) and Burkina Faso (42.9%)[18].

- Business Climate

According to the Doing Business 2020 ranking, an overall improvement in the business climate has been observed in WAEMU member states. In the 2020 ranking, Cote d'Ivoire (+12 places), Senegal (+18 places) and Togo (+40 places) recorded the strongest progress.

Furthermore, Togo is at the top of the ranking, overtaking the two leading economies of the zone (Cote d'Ivoire and Senegal).

In fact, Togo ranked 97th in the 2020 vs. 137th in the previous ranking thanks to reforms taken by the government.

Despite the good performance recorded in the WAEMU zone, efforts still need to be made, particularly with regard to the impact of reforms and their practical implementation.

In fact, the business environment in the WAEMU remains the worst in the world with an average score of 51.8/100 in the 2020 ranking (51.61/100 in the 2019 ranking) for 63/100 on average internationally.

- Socio-political and security risk

The security risk in the WAEMU remains high, in connection with repeated terrorist attacks by Jihadist groups, particularly in Burkina Faso, Mali and Niger. 2019, these attacks killed more than 4,000 people compared to 770 deaths reported in 2016 in the three countries above.

This situation has led to a greater allocation of resources to security expenditure, slowing down the financing of investments with a socio-economic impact.

In the face of terrorism, Member States undertook to further develop consultation, cooperation and the exchange of information and intelligence among themselves during the meeting of Ministers on security in the WAEMU space that took place on 26 April 2018.

The alarming security situation in the zone was thus at the heart of discussions during the extraordinary session of the conference of WAEMU Heads of State and Government held in December 2019.

During this conference, it was decided to allocate US$100 million to the three (3) member countries of the G5 Sahel front line, namely Burkina Faso, Mali and Niger.

This is part of the WAEMU's contribution (US$ 500 million[19]) to the financing of the ECOWAS action plan to combat terrorism for the period 2020-2024.

These resources will enable the countries to acquire air equipment and to recruit and train special forces.

The Heads of State and Government also adopted at that session an additional act establishing a Regional Security Fund to mobilize financial resources in the mid-term. This Fund will be financed from the own resources of Member States but also from other resources available to the Union. These funds will help to strengthen the financing of the fight against terrorism in the area.

In addition, at the social level, Coronavirus disease has highlighted the weaknesses of the health system in WAEMU countries in dealing with a health emergency of this magnitude.

Beyond the health system, the Covid-19 pandemic is a reminder of the major deficits in basic socio-economic infrastructures. Thus, this health crisis could further weaken the relatively precarious social environment, exacerbating the needs of the population and the precariousness of certain households with an increase in unemployment foreseen.

Below is the distribution of coronavirus disease infections by member country:

[18] Source : Impact de la CODID-19 sur la Zone UEMOA- Bloomfield -Intelligence

[19] Commitment made by WAEMU during the meeting of the Union's Ministers of Finance and Defense in October 2019

Table 8: Distribution of Covid-19 infections in WAEMU

	Infections	%	Cures	%*	Deaths	%*
Benin	1 378	5%	557	40%	26	2%
Burkina Faso	1 038	3%	882	85%	53	5%
Cote d'Ivoire	13 403	44%	7 146	53%	87	1%
Guinea Bissau	1 902	6%	773	41%	26	1%
Mali	2 440	8%	1 777	73%	121	5%
Niger	1 100	4%	993	90%	69	6%
Senegal	8 481	28%	5 735	68%	156	2%
Togo	740	2%	534	72%	15	2%
WAEMU	30 482	100%	18 397	60%	553	2%

*Percentage related to the number of infections per country
Source: Covidvisualizer (data from 16/07/2020)

Côte d'Ivoire, Senegal and Mali are the countries that are the most affected by Covid-19, with 13,403, 8,481 and 2,440 cases reported as of 16 July 2020, respectively.

In terms of cures, Niger has the highest cure rate, i.e. 90% of reported cases (990 people cured out of 1,100 infected people).

Niger is followed by Burkina Faso with 882 cures out of 1,038 cases of infection, a cure rate of 85%.

Case-fatality rate is 2% in the WAEMU zone, with 553 deaths out of 30,482 people infected as of 16 July 2020.

Socio-economic environment of Kenya

Shelter Afrique's head office is located in Nairobi, Kenya. SHAF activities are based in its 44 member countries.

Independent since 12 December 1963, the Republic of Kenya, located in East Africa, covers a surface area of 580,367 km², with a population estimated at 47.56 million inhabitants in 2019 according to the World Bank. Population density is 81.88 inhabitants/km², above the sub-Saharan African average of 42 inhabitants per km².

Neighboring countries are South Sudan and Ethiopia to the north, Somalia to the east, Tanzania to the south and Uganda to the west. The country is bordered to the east by the Indian Ocean along 536 km.

On the economic front, Kenya is committed to trade liberalization through its membership in several organizations, including:

- the World Trade Organization (WTO);
- the Common Market for Eastern and Southern Africa (COMESA);
- the East African Community (EAC) which includes, in addition to Kenya, Tanzania, South Sudan, Uganda, Rwanda and Burundi, and whose agreement was signed in December 2013.

In 2019, Kenya was the largest economy in East Africa and the seventh largest in Africa with an estimated GDP of 87.91 billion per capita according to World Bank data.

In 2018, it was the world's third largest producer of tea and second largest exporter (by volume), the ninth largest producer of dried beans and seventeenth largest producer of oilseeds. Kenya is among the top 20 coffee exporters[20].

Agriculture accounts for nearly 35% of Kenya's GDP and employs less than 40% of the labor force. Agriculture and horticulture are the two largest sectors of the Kenyan economy[21].

♦ Economic and Financial Risk

Kenya's business climate is evolving favorably with business reforms undertaken.

In fact, the shortening of processing times and the implementation of the digital tax return platform have had a positive impact on Kenya's business environment.

This progress can be seen in the 5-place rise in the global ranking of the World Bank's Doing Business 2020 report. Kenya is therefore at the 56th place with a score of 73.2/100 in 2020 (61st place with a score of 61/100 in 2019).

Kenya's actual GDP growth is estimated at 5.9% in both 2019 and 2018, driven by household consumption and investment on the demand side, and services on the supply side (such as 'public administration', 'information technology', 'finance and insurance', 'transport and storage').

The country's public debt has increased from 41% of GDP in 2013 to 58% in 2019. Kenya's budget deficit therefore remains high in 2019.

On the expenditure side, the increase in interest payments (absorbing about 22% of revenues collected in 2018) reflects an increase in current expenditure, despite a plan to limit hiring in the public sector in order to contain the wage bill (17% of total expenditure)[22].

Revenues should be supported by tax measures, such as increased taxation on capital gains. However, progress will be limited by the capacity to mobilize domestic revenue. Debt, both external and domestic, will therefore still be necessary to finance the deficit.

According to the World Bank, Kenya's inflation rate rose from 4.7% in 2018 to 5.2% in 2019.

The year 2020 has seen extraordinary events, including the invasion of growing swarms of voracious locusts and the health crisis linked to Coronavirus disease, which have led to an upheaval in economic activity in all countries of the world, including Kenya[23].

In this context, the expected growth rate of 6% for the year 2020 could drop to 1.5%, according to the World Bank.

In fact, the pandemic has had a negative impact on key sectors such as transport, trade and tourism. Economic stimuli such as VAT refunds, payment of existing arrears to contractors and tax exemptions will exacerbate the shortfall in State resources and disrupt development projects and social spending planned by the government.

[20] Agriculture accounts for nearly 35% of Kenya's GDP and employs less than 40% of the labor force.
[21] World Bank
[22] Coface
[23] Situation as at 16/07/2020: 11,673 confirmed cases - 3,638 people cured - 217 deaths

In addition, between March and May 2020, international passenger flights to and from Kenya have been banned for an indefinite period. This decision will strongly affect tourism, the sector that creates the most jobs in the country and is therefore important in Kenya's GDP.

Kenya has therefore received financial support of $739 million from the International Monetary Fund (IMF) to meet public health expenditures and support households and businesses affected by the pandemic crisis.

However, with the lifting of lockdown measures scheduled for the second half of 2020, the Kenyan government is forecasting a GDP growth rate of 5.2% in 2021.

- Socio-political and security risk

Since March 2017, President Uhuru KENYATTA has been re-elected for a second 5-year term against his rival Raila ODINGA.

Despite the decline in post-election tensions following a reconciliation agreement between the two candidates in March 2018, the political, social and ethnic divisions in the country remain an issue and appear to be a source of instability in the future.

Also, Kenya remains a target for Islamist terrorism, particularly Alshabab terrorism, due to its military involvement in Somalia.

In fact, in January 2019, the capital, Nairobi was the target of a terrorist attack that killed around 20 people. In addition, recurrent trade disputes with Tanzania could hinder the integration of the East African Community, in which Kenya plays a pivotal role.[24]

The socio-political and security risk is still present in Kenya.

Legal and regulatory framework

- **Legal framework**

Memorandum of understanding for the creation of an African institution for housing development and finance

On 4 September 1981, the founding shareholders (African Development Bank and 17 African countries) signed the memorandum of association establishing Shelter-Afrique.

Shelter-Afrique's founding charter

On 11 May 1982, the Republic of Kenya issued a founding charter to Shelter-Afrique, which was incorporated as a company.

However, Shelter Afrique is officially incorporated in Kenya under the 1985 Act (Shelter Afrique ACT 1985) legally establishing Shelter Afrique retroactively from 1983.

Statutes

In accordance with the founding charter, the organisational structure, operations and activities are exclusively defined and governed by the statutes.

The statutes and any valid amendment thereof made in accordance with relevant provisions will be validated and implemented by the shareholders.

Headquarters agreement

In 1984, the Republic of Kenya and Shelter Afrique signed a headquarters agreement whereby Kenya grants certain privileges to Shelter Afrique.

Thus, Shelter Afrique enjoys certain rights and privileges, and immunity similar to those granted to diplomatic missions in Kenya.

Intervention in the member countries of the Organization for Harmonization of Business Law in Africa (OHADA) Where it operates in an OHADA (of which the WAEMU is a part) member country, Shelter-Afrique will be submitted to certain uniform acts:

Uniform Act organizing securities;

Uniform Act organizing simplified recovery procedures and measures of execution;

Uniform Act organizing collective proceedings for wiping off debts.

Intervention in WAEMU countries

Shelter-Afrique is submitted to the regulation governing transactions at the Regional Stock Exchanges (BRVM).

Revision of Shelter-Afrique's Chart of Accounts

Standard IAS 39 has been replaced by IFRS 9, which came into force on 1 January 2018.

This standard is a significantly reformed approach to hedge accounting with enhanced disclosures on risk management activity.

It requires the determination of an impairment provision on financial instruments based on expected credit losses, rather than the incurred loss model previously applied under IAS 39.

IFRS 9 presents a single, logical approach to the classification and measurement of financial assets that reflects the business model under which they are managed and their contractual cash flows.

Shelter-Afrique adopted IFRS 9 on 1 January 2018.

The Standstill Agreement

To reduce the impact of the financial crisis that Shelter Afrique has been experiencing since 2017 on its short and medium term balance, a standstill agreement was negotiated with seven (7) lending institutions.

The Standstill Agreement provided for a moratorium on the repayment of outstanding lines of credit, with the ultimate objective of restructuring debt over the medium and long term. Some of the conditions precedent to the signature of the Standstill Agreement were that Shelter-Afrique suspends new loan approvals and commitments. This legal suspension has enabled the institution to redefine its development strategy, to allow for effective resumption of activities.

Negotiations for the signing of this agreement started in May 2017 and were completed in July 2018. The Standstill Agreement ended in December 2018.

✓ Signing of the Debt Restructuring Agreement (DRA)

Following the Standstill Agreement, in late 2018 Shelter Afrique initiated the signing of an agreement to restructure all its debts with main lenders.

Through this Debt Restructuring Agreement (DRA), Shelter Afrique expects to achieve the strategic objective of preserving relationships and creating value for all stakeholders, thanks to a rescheduling of maturities until 2024.

The main conditions of the DRA are as follows:

- 60-month period ending June 2024;
- mandatory initial payment of 20% of the outstanding loan on a pro-rata basis;
- payment of interest as at 31 December and June 30 of each year;
- and repayment of the initial capital.

[24] Coface

During the second quarter of 2019, bilateral agreements with the commercial banks CBA Syndicated Loan and Ghana International Bank PLC (GH-IB) were finalized and signed.

The Common Terms Agreement with the other six (6) lenders was finalized and signed on 22 May 2020. The other six (6) signatories of the agreement are:

- French Development Agency (AFD);
- European Investment Bank (EIB);
- KfW BankenGruppe;
- Islamic Development Bank (ICD);
- African Development Bank (AFDB);
- West African Development Bank (BOAD).

Shelter Afrique has met its commitments deriving from the various agreements.

- **Regulatory framework**

As a Multilateral Development Bank (MDB), Shelter Afrique is also a supranational financial institution. As such, it is not subject to any specific banking regulations.

However, Shelter Afrique complies with IFRS principles and international regulations such as: ISO 31000, COSO and Basel 3.

Operations

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standard Board. They are presented in US dollars, which is the functional currency of Shelter Afrique.

- **Commercial activities**

Shelter-Afrique offers financing solutions in local currencies (CFA Franc, Kenyan Shilling, Naira or Rand) or in foreign currencies (US Dollar and Euros) to financial institutions, private sector developers or public institutions in its member countries.

- **Continued decline in assets**

Table 9: Assets

In thousand USD	2018	2019	Variation 18-19	In %
Cash and Bank	13 682	6 491	-7 191	-53%
Term deposits	30 777	50 482	19 705	64%
Derivative financial instruments	2	346	344	17997%
Assets available for sale	4 728	4 644	-84	-2%
Loans and advances to customer	165 187	114 635	-50 552	-31%
Sundry debtors	2 200	3 837	1 637	74%
Joint Venture Investment	3 667	3 696	29	1%
Equity securities	3 998	3 960	-38	-1%
Tangible fixed assets	4 958	4 758	-199	-4%
Intangible fixed assets	125	178	53	42%
State subsidy	109	105	-4	-4%
Total assets	229 432	193 132	-36 300	-15,8%

Source: Shelter Afrique

Shelter-Afrique's assets have been consistently in decline since 2017 due to the suspension of activity. At operational level, repayments by customers are continuing and investments are limited.

The 15.8% decline in assets in 2019 is thus mainly related to the decrease in outstanding loans and advances to customers, which represented 65.5% of assets on average between 2018 and 2019.

Due to the relatively slow recovery of activities, Shelter Afrique invests short-term cash obtained from the repayment of loans and advances to customers in order to generate financial income. Term deposits thus continue to grow (+64%), with their share in total assets gradually increasing from 2% in 2016 to 13% in 2018 and 26% in 2019. This strategy also leads to a decrease in cash at bank and in hand (-53% in 2019).

As part of its foreign exchange hedging policy, Shelter-Afrique has entered into a currency swap agreement with[25] the African Development Bank (AfDB). As at the end of 2019, Shelter-Afrique has a potential gain of US$344 thousand (compared to a potential loss of US$588 thousand in 2018).

The increase in sundry accounts receivables of US$1,637 thousand in 2019 is related to new real estate loans granted to employees for an amount of US$1,632.7 thousand.

- **A slight decline in fixed assets**

Table 10: Fixed assets (in USD)

In USD	2018	2019
TANGIBLE FIXED ASSETS		
As at 1 January	6 793 597	6 829 387
Acquisitions	35 790	45 052
Disposal		- 437 397
Gross value as at 31 December	6 829 387	6 437 042
Comprising:		
Current price	5 131 970	4 739 624
Estimated value	1 697 416	1 697 416
As at 1 January	1 601 699	1 871 768
Allocation for the year	270 069	- 193 012
Amortization as at 31 December	1 871 768	1 678 756
Residual value	4 957 619	4 758 286
Variation (%)	*-4,5%*	*-4,0%*
INTANGIBLE FIXED ASSETS		
As at 1 January	1 063 361	1 085 113
Additions	21 752	199 413
Gross value as at 31 December	1 085 113	1 284 526
Amortization		
As at 1 January	857 688	960 327
Allocation for the year	102 639	146 525
Amortization as at 31 December	960 327	1 106 852
Residual value as at 31 December	124 786	177 674
Variation (%)	*-39,33%*	*42,38%*
Total fixed assets	5 082 405	4 935 960

Source: Shelter Afrique

As part of the resumption of activities, Shelter Afrique is gradually planning to renew its depreciated fixed assets and strengthen its information system and decision-making tools.

Out of an initial capital investment budget of US$924 thousand (software, office supplies, computers) in 2019,

[25] An agreement between two parties who exchange a given amount of foreign currency and undertake to make regular interest payments to each other and to return the exchanged amount to each other at a given time.

Shelter Afrique spent only US$244.47 thousand (21.6% of budget), due to slow internal procedures in terms of supplier selection and review of some capital expenditure.

This amount mainly relates to intangible assets, particularly the acquisition of software for the automated monitoring and management of loans, which should reduce the risk of errors. These activities were in fact carried out manually using an Excel spreadsheet.

Gross tangible fixed assets, consisting mainly of land and buildings, decreased in 2019 to USD 6,437 thousand following the disposal of fully depreciated assets (office equipment and computers).

Capital expenditure projects supposed to be continued in 2020, were slowed down due to the Covid-19 pandemic; some capital expenditure was postponed to 2021, especially the transition from version 11.2 of the Oracle software package to version 12.6, of which the budget was revised to US$600 thousand in 2020. The revised capital expenditure budget for 2020 thus amounts to US$496.2 thousand.

- **A decline in customer portfolio**

Table 11: Evolution of Shelter-Afrique loans between 2018 and 2019

In thousand USD	2018	2019	Variation 18-19	in %
Balance as at 1 January	269 371	216 419	-52 952	-19,7%
Amounts disbursed during the year	6 502	3 440	-3 063	-47,1%
Repayments during the year	-59 500	-50 270	9 230	-15,5%
Write-offs during the year	0	1 652	1 652	#DIV/0!
Exchange difference	45	177	131	290,8%
Total Principal as at 31 December	216 419	171 417	-45 002	-20,8%
Interest and fees receivable	18 913	15 833	-3 080	-16,3%
Total Gross Loans (before Provisions)	235 332	187 250	-48 082	-20,4%
Provisions for impairment of credit risk	-70 145	-72 615	-2 470	3,5%
Net loans and advances	165 187	114 635	-50 552	-30,6%

Source: Shelter-Afrique

In the absence of a rapid resumption of lending activities, as anticipated, the portfolio of net loans and advances to customers, is still declining since 2017, and stands at US$ 114.635 million at the end of 2019. It is below the budget of US$ 169.540 million.

Shelter Afrique obtained repayments of US$ 50.270 million in 2019 (compared to US$ 59.500 million in 2018).

As part of the resumption of activities in 2019, loans totaling US$ 59.457 million were approved as at 31 December 2019 out of a target of US$ 101.900 million due to the complexity of the projects and the slowness of the new risk management procedures.

Table 12: 2019 Approval

#	Name	Type	Country	Status	Approval Amount
1	KMRC	Equity	Kenya	Approved & Paid	2 000
2	Soprofim	PF	Tchad	Approved	4 700
3	CABS	LOC	Zimbabwe	Approved	10 000
4	Wema	LOC	Nigeria	Approved	9 000
5	Lapo	LOC	Nigeria	Approved	7 000
6	Prudential Mo	LOC	Nigeria	Approved	3 500
7	TMRC	Equity	Tanzania	Approved & Paid	257
8	Teyliom	LOC	Senegal	Approved	11 600
9	Afriland First B	LOC	DRC	Approved	11 400
				Total	59 457

Source: Shelter-Afrique

Disbursements amounting to US$ 2.722 million have been made, with an initial target of US$ 36 million in 2019.

Disbursements made in 2019 thus related to performing loans or non-performing loans requiring additional funding to be profitable. These loans are subject to more intense monitoring by the SOU, before the disbursement authorization.

Table 13: List of ongoing projects funded in 2018 and 2019

Projects	Country	2018 Amount (in US dollars)	2019 Amount (in US dollars)
Edenvale Développements LLP	Kenya	316	0
Everest Park Ltd.	Kenya	1 225	844
Karibu Homes Ltd. Parktel	Kenya	786	499
Nakuru Meadow Development Ltd.	Kenya	1 447	509
Spring Green Properties	Kenya	994	0
Pan Fonds Housing Fund*	All countries	325	0
Izuba Developers Ltd.	Rwanda	1 378	95
Headquarters SPV	Swaziland	445	0
Serene Valley	Kenya	0	280
Edlorm Housing	Ghana	0	495
Tanzania Mortage refinance	Tanzania	0	0
Total		6 916	2 722

Relates to the acquisition of shares in the capital of PAHF

Source: Shelter Afrique

Impairment charge on loans and advances is down to US$ 4.399 million in 2019 (compared to US$ 9.918 million in 2018) .

In addition, thanks to actions undertaken by the SOU team, reversals of provisions of US$ 2.043 million were recorded in connection with repayments obtained on impaired loans.

Table 14: Evolution of provisions for depreciation of loans and advances

Impairment of loans and advances (USD)	2018	2019
As at 1 January	41 746 386	70 145 285
Impact of IFRS 9 as of 1 January 2018	18 855 988	0
Write-offs (principal and interest)	-391 822	0
Allocation for the year	9 917 984	4 399 090
incl. expense for the year (preliminary figures)		
incl. restatement (adjustment)		
incl. Reversals of impairment losses		-2 043 128
Currency translation differences	16 749	113 883
Total provisions	70 145 285	72 615 130

Source: Shelter-Afrique

Actual average effective interest rate of loans granted to customers is 12.04% in 2019 (compared to 11.45% in 2018).

Table 15: Breakdown of outstanding net loans by type of loan from 2017 to 2019

Product type	2018		2019	
	In thousand USD	Share (%)	n thousand USD	Share (%)
Real estate project financing	73 802	45%	50 845	44%
Credit lines	91 384	55%	63 790	56%
Total Net loans and advances	165 187	100%	114 635	100%

Source: Shelter-Afrique

Real estate project financing involves medium and long-term loans granted to real estate developers for construction, land development, infrastructure provision through specific programs and commercial projects, while credit lines relate to loans granted to financial institutions for housing finance. These funds are granted to support the refinancing of mortgage loans or to stimulate the financing of such mortgage loans by banks.

A decline in both credit lines and real estate project financing has been recorded due to limited project disbursements.

Table 16: Breakdown of gross outstanding loans by maturity 2018 and 2019

	2 018		2 019	
Maturity	Amount (in thousand USD)	Share in %	Amount (in thousand USD)	Share in %
1 year	144 807	61,5%	122 915	65,6%
1 - 5 years	79 348	33,7%	59 472	31,8%
More than 5 years	11 177	4,7%	4 863	2,6%
Total gross loans	235 332	100,0%	187 250	100,0%
Interest receivable (Accrued interest)				

Source: Shelter-Afrique

The suspension of credit activity since 2016 has resulted in a gradual densification of loans with maturities of less than one year, due to the timid resumption of activities in 2019. Loans with a maturity of less than one year represent 65.6% of the loan portfolio in 2019 (compared to 61.5% of the portfolio in 2018).

Shelter Afrique is restructuring loans to customers due to difficult repayment. The amount of restructured loans as at the end of June 2020 was US$ 26.278 million compared to US$ 5.264 million in 2019.

Despite a pool of more than 44 projects valued at US$ 535.070 million, the Management anticipates a slowdown in the granting of new loans as it is impossible to carry out the appropriate procedures in this context of the Covid 19 crisis. Therefore, the Management considers a disbursement on new business of US$ 53.940 million.

Loans approved as at the end of June 2020 amount to US$ 14.3 million, of which US$ 4.300 million has already been disbursed.

- **Bank deposits on the rise**

Table 17: Short-term bank deposits by account currency

In thousand USD	2018	2019	Variation 18 - 19	In %
USD	25 873	41 217	15 345	59%
FCFA	2 796	0	-2 796	-100%
KSHS	197	8 047	7 850	3991%
South African Rand	1 912	1 218	-694	-36%
Total	30 777	50 482	19 705	64%

Source: Shelter-Afrique

To optimize its cash position, Shelter Afrique subscribes bank term deposits with a maturity of 0 to 3 months.

Year 2019 has seen continued growth in term deposits, in line with repayments obtained and the slowdown in disbursements.

Term deposits amount to US$ 50.482 million (up 64% compared to 2018).

Table 18: Changes in the effective annual interest rate by currency

Currency	2016	2017	2018	2019	Variation
USD	3,32%	1,82%	2,45%	3,21%	1%
KSHS	10,06%	7,35%	7,00%	8,05%	1%
FCFA	3,75%	3,91%	4,39%	0,00%	-4%
EUROS	0,00%	0,75%	0,00%	0,00%	0%
South African Rand		0,00%	2,75%	6,25%	4%

Source: Shelter Afrique

The effective annual interest rate on term deposits is expected to increase overall in 2019.

- **Joint venture investments**

Table 19: Evolution of the book value of joint-venture investment

Project (In thousand USD)	Country	2018	2019
Everest Park	Kenya	1 063	1 103
Kew Gardens	Kenya	265	265
Rugarama Park Estates Limited	Rwanda	2 340	2 328
Book Value of Investments		3 667	3 696

Source: Shelter Afrique

Shelter Afrique's joint venture investments are in line with its vision to close the housing gap by providing affordable housing.

Shelter Afrique's joint venture investment portfolio has remained broadly unchanged between 2018 and 2019. Portfolio revaluations based on the 2019 financial statements result in an increase of US$ 29 thousand according to the equity method[26].

The Everest Park joint venture[27], 50% owned with Everest Park Limited, generated net income of US$ 71 thousand, which contributed to the increase in the value of the interest in Everest Park by US$ 40 thousand.

[26] Under the equity method, the interest in the joint venture is initially recognized at cost and the carrying amount is increased or decreased to recognize the venturer's share in the income statement of the joint venture after the acquisition date. After applying the equity method, the Company determines whether it is necessary to record an impairment loss on its investment in its joint venture.

[27] A company established in 2011 in Kenya , dedicated to real estate development, construction and sale.

However, the 50%-owned Rugarama Park Estates Limited joint venture with Rugarama Park[28] continues to depreciate in 2019 due to a loss of approximately US$23 thousand, whose impact on Shelter Afrique is US$ 11.5 thousand.

Concerning the Rugarama Park Estate project launched in June 2019 with the Development Bank of Rwanda (BRD) for the construction of 2,000 affordable housing units in the Nyamirambo sector, at an estimated cost of US$ 131 million 2020, preliminary work is underway.

▪ Variation in investment securities

Table 20: Variation in equity securities in USD

In thousand USD	2018	Additional costs	Exchange gains/losses	Variation due to fair value	2019
Caisse Régionale de Refinancement Hypothécaire (CRRH)	919	0	-20	121	1 020
Banque de l'Habitat du Burkina Faso (BHBF)	349	0	-5	56	400
Pan African Housing Fund	2 020	396	0	-846	1 570
Tanzania Mortgage Refinance Company Ltd	710	257	0	3	970
TOTAL	3 998	652	-25	-665	3 960

Source: Shelter Afrique

Shelter-Afrique's equity investments in financial institutions fall within the framework of its support for the promotion and development of housing and the real estate sector in Africa.

In 2019, capital in the amount of US$ 652.1 thousand has been invested in the Pan African Housing Fund (PAHF) and Tanzania Mortgage Refinance Company. As at the end of June 2020, a total amount of USD 573.3 thousand has been disbursed to these companies.

Shelter Afrique's equity investments in the capital of La Caisse Régionale de Refinancement Hypothécaire (CRRH-UEMOA), Banque de l'Habitat du Burkina Faso (BHBF) and Tanzania Mortgage Refinance Company were increased by a total amount of US$ 180.4 thousand.

The net loss of the Pan African Housing Fund (PAHF) in 2019 resulted in a depreciation provision of US$ 845.7 thousand.

Financial Profile

▪ Simplified income statement

Table 21: Simplified income statement between 2018 and 2019

	2018	2019	Var 2018/2019	Variation
Interest income	17 617	15 338	-13%	-2 279
Interest and similar expenses	-9 984	-6 704	-33%	3 280
Margins / Net interest income	7 632	8 634	13%	1 001
Commission fee income	1 513	1 304	-14%	-209
Grant income	4	4	0%	0
Other income	336	256	-24%	-79
Net Banking Income	9 485	10 198	8%	713
Operating expenses	-9 060	-8 442	-7%	618
Exchange gains/losses	263	235	-11%	-28
Impairment charge on loans and advances	-9 918	-4 399	-56%	5 519
Recovery of impaired loans and advances	13	2 043	15902%	2 030
Other impairment charges - Joint ventures	-785	-250	-68%	535
Recovery of impaired bank deposits	902	0	-100%	-902
Share of loss/profit of the joint venture	-134	21	-116%	155
Loss for the year	-9 233	-594	-94%	8 639

Source: Shelter-Afrique

In a context of slow business recovery, the decline in interest expense (US$ -3.280 million), which is greater than the decline in interest income (US$ -2.279 million), will lead to a rise in interest margin of 13% in 2019, following the 30% decline recorded in 2018.

The decline in interest income is linked both to the absence of disbursements for new loans and to repayments obtained on loans and advances granted before the management crisis, which led to a decline in outstanding loans as at the end of 2019.

The decrease in interest expense is in line with the decrease in loans of US$ 41.596 million (-38.34%) in 2019, in a context of debt restructuring. The average effective interest rate in 2019 for loans in US dollars is 4.72% (compared to 4.47% in 2018), for loans in CFA francs is 7.69% (compared to 7.65% in 2018) and for loans in Kenyan Shilling is 14% (compared to 13.39% in 2018).

Commissions and other income also declined due to the slow recovery of lending activity.

NBI (Net Banking Income) will thus increase by 8% in 2019 (from -33% in 2018), driven by the increase in interest margin.

Table 22: General operating expenses between 2018 and 2019

In thousand USD	2018	2019	Var 19-18	In %
Operating profit/NBI (a)	9 485	10 198	713	7,5%
Salaries and benefits	5 268	4 914	-354	-6,7%
Depreciation and amortization (net of reversals)	377	395	18	4,8%
Audit fees	46	46	0	0,0%
Board meetings	377	328	-49	-13,1%
Official missions	221	369	149	67,3%
Consulting fees	721	751	30	4,1%
Commercial promotions	207	88	-118	-57,3%
Other administrative expenses	1 843	1 550	-293	-15,9%
Operating expenses (b)	9 060	8 442	-618	-6,8%
Ratio of operating expenses to NBI	96%	83%	-13%	-13%

Source: Shelter-Afrique

[28] The Rugarama Park Estates Limited project is a joint venture created in Rwanda between Shelter Afrique and the Rwanda Development Bank (BRD), holding half of the share capital each. This involves the co-financing and construction of approximately 2,700 low-cost housing units in the Nyarugenge district of Kigali.

Operating expenses are expected to decrease overall by 6.8% in 2019, thanks to a reduction in salaries and benefits, sales promotion costs and other administrative costs.

As a reminder, the year 2018 was exceptional as the organizational restructuring has resulted in the payment of severance pay and external consultant fees, among other things.

Efforts to reduce expenses, coupled with the improvement of NBI, will enable the ratio of operating expenses to NBI to fall from 96% in 2018 to 83% in 2019. Shelter-Afrique's cost/income ratio thus remains very high in 2019, compared to a target of 67%.

However, the operating result remains negative but has improve in 2019 from -9,233 thousand to -594 thousand USD, thanks to recoveries of previously impaired loans (+2,043 thousand USD) and lower provisions on loans and advances compared to 2018.

Note that 2018 was the first year of application of IFRS 9, which required an additional provisioning on loans and advances of US$9.9 million due to the prospective revaluation of expected losses. In 2019, this revaluation amounted to US$4.4 million due to repayments received and expected.

Overall, the good increase (+7,991 thousand US dollars) in net income in 2019 to -1,259 thousand US dollars, in the absence of actual recovery of financing activity, is mainly due to the overall improvement in the management of the receivables portfolio, which has led to a decrease in annual provisions and the recovery of previously impaired receivables. Net result was budgeted at US$ -1.2 million in 2019.

According to the revised 2020 budget, net result is expected to remain in deficit at US$ 3.32 million, due to the slow recovery of financing activities and the expected decrease in income from the loan portfolio, as a result of the Covid-19 crisis. The operating cost/NBI ratio is expected to deteriorate to 97% in 2020.

- **Profitability of Shelter-Afrique**

Table 23: Evolution of profitability

Profitability	2018	2019
Net result	-9 249 908	-1 258 832
Average Equity	119 242 624	111 103 723
Opening Equity	131 698 794	106 786 453
Closing Equity	106 786 453	115 420 993
ROE (Net income / Opening equity)	-7%	-1%
Average ROE (Net income / average equity) - ROaE	-7,8%	-1,1%
Operating result	-9 414 684	-932 627
Average assets	270 645 645	211 282 153
Total assets N	229 432 031	193 132 275
ROA (Operating income/Total assets N)	-4%	-0,5%
Average ROA (Operating income / Average total assets) - ROaA	-3,5%	-0,4%

Source: Bloomfield

Shelter-Afrique is still not profitable; however, profitability indicators have improved strongly between 2018 and 2019 thanks to the improvement in the result though still negative.

However, profitability is expected to deteriorate in 2020 due to the Covid 19 pandemic and the anticipated slowdown in economic activities.

- **Ability to generate cash flow**

Table 24: Cash flow statement between 2018 and 2019

In thousand USD	2018	2019
Self-financing capacity	1 910	6 279
Variation of WCR (+) decrease (-) increase	62 711	48 769
Cash flow from operating activities	64 621	55 047
B-Investment activities		
Acquisition of inalienable assets	-36	-45
Acquisition of intangible assets	-22	-199
Proceeds from sales of properties held for resale	82	84
Shareholding	-425	-652
Net cash flow used in investing activities	-400	-813
C-Financing Activities		
Resources mobilized	5 564	9 964
Repayments	-66 764	-51 685
Net cash flow (used)/generated by financing activities	-61 200	-41 721
D-(Decline)/ Increase in net balance of liquidities and equivalent	3 021	12 514
Cash flow as at 1 January	41 438	44 459
Cash flow at 31 December	44 459	56 973

Source: Shelter-Afrique

Self-financing capacity has increased by US$ 4.369 million in line with the improvement in net income for fiscal year 2019.

Cash flow from operations has dropped to US$ 55.047 million, following decline in activity.

Operating cash flow is used to increase Shelter-Afrique's holdings in the capital of institutions (PAHF, Tanzania Mortgage and Refinance Company), but mainly to cover the repayment of outstanding loans.

In accordance with the Debt Restructuring Agreement (DRA), Shelter-Afrique made repayments totaling US$ 51.685 million, including US$ 47.851 million for bank debt and US$ 3.783 million for bonds issued on the BRVM stock exchange.

The improvement in cash flow (US$ 12.514 million) is related to the collection of shareholder capital for an amount of US$ 9.964 million.

Risk exposure

A corporate risk management framework and risk procedures were adopted in June 2019 in accordance with best practices recommended by the Basel 3 Committee, ISO 31000, and COSO.

The main risks affecting Shelter Afrique are credit risk, liquidity risk and operational risk.

- **Credit risk**

Credit risk, the most important risk facing Shelter Afrique, is managed by the Audit, Risk and Finance Committee.

The geographic distribution of gross loans and advances to customers as at 31 December 2018 and 2019 is as follows:

Table 25: Classification of gross loans in 2018 and 2019 by country

Country (In thousands of USD)	Region	2018 Total	2018 Proportion (in %)	2019 Total	2019 Proportion (in %)
Senegal	West Africa	665	0%		
Mauitania		10 249	4%	8 541	5%
Mali		5 033	2%	4 925	3%
Nigeria		14 652	6%	10 722	6%
Togo		3 860	2%	4 499	2%
Ghana		11 357	5%	11 167	6%
Rwanda	East Africa	19 017	8%	17 477	9%
Republic of		20 205	9%	16 369	9%
Uganda		4 547	2%	1 940	1%
Kenya		78 505	33%	58 016	31%
Malawi	Southern Africa	1 450	1%	1 448	1%
Swaziland		8 034	3%	7 239	4%
Madagascar		2 421	1%	2 430	1%
Mozambique		9 549	4%	9 551	5%
Zambia		9 419	4%	5 125	3%
Zimbabwe		21 845	9%	15 814	8%
Congo, The Democratic Republic of the	Other	14 524	6%	10 825	6%
Grand total		235 332	100%	186 089	100%

Source: Shelter-Afrique

East Africa accounts for 50% of loans granted, followed by Southern Africa, with 22% of gross loans as at 31 December 2019.

Shelter-Afrique's portfolio remains concentrated on four (4) countries, which together hold 57% of outstanding loans as at end 2019, namely Kenya (31%), Rwanda (9%), Tanzania (9%) and Zimbabwe (8%).

With a view to portfolio deconcentration, Shelter Afrique is counting on its diversified project pipeline and the gradual strengthening of its teams in the Nigeria and Cote d'Ivoire offices.

The project pipeline as at 30 June 2020 is as follows:

Table 26: Classification of project pipeline by country as at 30 June 2020

Country	Region	TOTAL	%
Senegal	West Africa	6 250	1,2%
Ivory Coast		45 519	8,5%
Nigeria		107 000	20,0%
Liberia		15 000	2,8%
Mauritania		26 000	4,9%
Sierra Leone		11 000	2,1%
Ghana		12 250	2,3%
Rwanda	East Africa	18 500	3,5%
Tanzania		36 250	6,8%
Uganda		33 000	6,2%
Kenya		71 500	13,4%
Malawi	Southern Africa	30 000	5,6%
Namibia		3 300	0,6%
Zambia		800	0,1%
Zimbabwe		46 500	8,7%
Lesotho		3 571	0,7%
Cameroon	Central Africa	8 000	1,5%
Chad		4 730	0,9%
DRC		45 900	8,6%
Non-Specifc	Other	10 000	1,9%
TOTAL		535 071	100,0%

Source: Shelter-Afrique

The project pipeline amounts to US$ 535.071 million, of which 42% are in West Africa, 29.8% in East Africa, 15.7% in Southern Africa and 11% in Central Africa.

NPL management

From 2018 onwards, Shelter Afrique measures credit risk using probability of default (PD), exposure at default (EAD) and loss given default (LGD). This approach is similar to that used to measure expected credit losses (ECL) under IFRS 9 effective 1 January 2018.

The loan portfolio is now classified into three (3) categories: Performing loans (PL), Underperforming loans (UL), Non performing loans (NPL).

Loan classification between 2018 and 2019 is as follows:

Table 27: Classification of 2018-2019 loans by category

In thousand USD	2 018	%	2 019	%
Performing	90 333	38%	64 533	35%
Underperforming	36 572	16%	26 080	14%
Non performing	108 428	46%	95 476	51%
TOTAL	235 332	100%	186 089	100%
Non performing + Underperforming	145 000		121 556	
Gross degradation rate	61,61%		65,32%	

Source: Shelter-Afrique

The portfolio of performing loans is declining much faster than the portfolio of underperforming and non-performing loans due to the reduced number of new loans in 2019, and repayments made by clients on outstanding loans.

Although the balance of gross loans and advances to customers is down, the share of "non-performing" and "under-performing" loans is up between 2018 and 2019, from 61.6% to 65.3%, in line with the timid recovery in credit activity. However, outstanding loans have decreased to US$ 121.556 million in 2019 (compared to US$ 145 million in 2018) thanks to NPL collection efforts.

Shelter Afrique has put in place a strategy for the recovery of *non-performing loans* (NPL), which has led to the establishment of the *Special Operations Unit* (SOU) on 1 February 2018.

The strategy is expected to run from 2018 to 2023 and includes:

- conducting regular reviews of NPL's portfolio to ensure smooth implementation of projects financed and to facilitate debt recovery through improved customer relations;
- where possible, transferring non-performing loans to any interested third parties;
- Restructuring loans;
- removing bad debts from the portfolio.

As part of NPL monitoring, a weekly meeting is held by the SOU and a monthly meeting is held by the Loans Monitoring Committee (LMC).

The SOU's goal is to reduce NPLs by US$ 15 million annually to an NPL ratio below or equal to 15%. NPLs were reduced by approximately US$ 16.3 million in 2019, bringing the ratio to 51% (compared to 46% in 2018), far from the target.

The portfolio deterioration rate has increased from 61.61% in 2018 to 65.32% in 2019.

Since the SOU has been set up, recoveries totaling US$ 33 million have been made on the NPL portfolio, out of an initial amount of US$ 113 million, inherited in 2018.

Shelter Afrique recovered NPLs amounting to US$ 1,516 thousand in the first half of 2020.

The geographical breakdown of non-performing and under-performing loans in 2019 is as follows:

Tableau 28: Classification of non-performing loans by country

Country	Region	2018		2019	
		Amount (in thousand USD)	Share in %	Amount (in thousand USD)	Share in %
Ghana	West Africa	9 187	6%	9 804	10%
Mali		5 033	3%	4 925	5%
Mauritania		4 553	3%	4 556	4%
Nigeria		5 654	4%	4 950	5%
Senegal		665	0%		
Togo		3 860	3%	4 499	4%
Kenya	East Africa	67 594	47%	33 968	33%
Rwanda		9 478	7%	6 488	6%
Tanzania		5 828	4%	11 910	12%
Uganda		4 547	3%	1 940	2%
Madagascar	Southern Africa	2 421	2%	2 430	2%
Malawi		1 450	1%	1 448	1%
Mozambique		9 549	7%	9 551	9%
Swaziland		8 034	6%		
Zambia		2 085	1%		
DRC	Other	5 062	3%	5 076	5%

Source: Shelter-Afrique

Impaired loans are mostly located in Kenya (33%), due to their predominance in the gross loan portfolio, with a 31% share.

NPLs held in Kenya, Ghana and Tanzania account for 55% of total NPLs in 2019.

The analysis of the portfolio resulted in an additional provision of US$ 2.46 million in 2019, bringing the total provisions to US$ 72.61 million.

Management's objective is to accept a maximum of US$ 11 million as bad debts. As at the end of April 2020, the total amount of loans considered as bad debts was US$ 7.39 million.

Major obstacles encountered by the SOU are linked to the age of contracts, the majority of which are more than 10 years old, the difficulty of disposing of the NPLs in their current state and the slowness of legal procedures.

For underperforming and non-performing loans where clients encounter payment difficulties, Shelter Afrique proposes, among other things, a restructuring of the contract to allow the client to continue to make loan repayments, with more flexible conditions.

Table 29: Restructured loans

Client's name:	Country	Accrued loans in 2019
Everest Park	Kenya	2 035 702
HFDI	Kenya	Prepaid in 2019(Kes 3.3m)
Nakuru Meadow Development Ltd.	Kenya	3 228 542
TOTAL		5 264 244
Client's name:	Country	Accrued loans in 2018
Headquarters SPV (Proprietary)Limited	Swaziland	6 937 445
Izuba Developers Limited	Rwanda	3 047 630
Karibu Homes Parktel Limited	Kenya	3 067 571
National Cooperative Housing Union	Kenya	995 505
Rwand Development bank	Rwanda	8 015 892
Spring Green Properties	Kenya	4 213 981
TOTAL		26 278 024

Source: Shelter Afrique

Besides loan restructuring, Shelter Afrique offers lenders experiencing repayment difficulties in real estate projects to take control of the assets in order to sell them for repayment.

Credit risk management is improving.

- **Liquidity risk**

Shelter Afrique's liquidity risk is the risk that the company will not be able to meet its obligations related to its financial liabilities when due.

The Board of Directors is responsible for managing this risk with the assistance of the Assets Liability Management (ALM) Committee, through a dedicated framework.

Liquidity has evolved as follows:

Table 30: Liquidity ratio

In thousand USD	2017	2018	2019	Variation	In %
Bank and cash balance	19 455	13 682	6 491	-7 191	-53%
Short-term deposits	21 983	30 777	50 482	19 705	64%
Total liquid assets	41 438	44 459	56 974	12 515	28%
Total assets	311 859	229 432	193 132	-36 300	-16%
Liquidity ratio	13,3%	19,4%	29,5%	6,1%	46%

Source: Shelter Afrique

Liquid assets continue the upward trend that began in 2017 thanks to repayments received from customers and the mobilization of additional funds from shareholders (+US$9.8 million).

Liquid assets have increased by 28% to reach USD 56.97 million, resulting in an improvement in the liquidity ratio from 19.4% in 2018 to 29.5% in 2019. The minimum liquidity ratio is set at 15% by Management.

As the mobilization of external resources has been suspended since 2017, due to the debt restructuring strategy, Shelter-Afrique's cash flow is supported by the increase in social capital payments by shareholders. In this context, commitments have been made by member countries, which are not, however, fully respected.

In the first half of 2020, Shelter Afrique raised US$1.59 million from its members.

The Covid 19 crisis could lead to a liquidity crisis. The liquidity ratio is projected at 9% in 2020 considering that the minimum liquidity ratio set by management is 15%.

The liquidity risk is high.

- **Market risk**

The market risk faced by Shelter Afrique is linked to foreign exchange risk and interest rate risk, which are managed through sensitivity analyses.

Foreign Exchange risk

Table 31: Currency variations as at 31 December 2019

In thousand USD	USD	EURO	CFA	KSHS	ZAR	NAIRA	Total
Total financial assets	139 203	1 252	7 119	26 254	1 959	4	211 848
Total financial liabilities	56 815	0	7 890	8 688	0	0	118 660
Liquidity gap	82 389	1 252	-771	17 566	1 959	4	93 188
Net position / Total Capital	38,89%	0,59%	-0,36%	8,29%	0,92%	0,00%	

Source: Shelter Afrique

Shelter Afrique's foreign exchange risk management strategy is to borrow and lend in the same currency.

Borrowings in U.S. dollars, Kenyan Shilling, and CFA francs represent 83%, 13%, and 5% of borrowings from commercial banks and development financial institutions, respectively, as at the end of 2019.

Shelter Afrique's operations are carried out in the following main currencies: US Dollar, Kenyan Shilling, CFA Franc, and Euro.

Below is the analysis of the impact of exchange rate fluctuations on the company's net income, carried out by the Management:

Table 32: Impact of the sensitivity analysis by currency on earnings as at 31 December 2019

Period	Currency (in thousand USD)	EURO	CFA	KSHS	ZAR
2018	Variation	5%	4%	4%	1%
	Impact	6	- 61	1 162	19
2019	Variation	5%	4%	4%	1%
	Impact	62	- 31	703	20

Source: Shelter Afrique

Based on forecasts as of 31 December 2019, Shelter Afrique is expected to experience a maximum loss regarding its exposure in CFA Franc (US$30.86 thousand) and a maximum profit regarding its exposure in Kenyan Shilling (US$702.64 thousand).

Management's projections show a foreign exchange loss of US$1.24 million if the Covid 19 crisis lasts from March to September 2020.

Interest rate risk

Shelter Afrique is exposed to the risk of changes in interest rates in connection with loans to customers and borrowings in foreign currencies. Loan interest rates are generally set according to the cost of financing, generally based on Libor plus a margin.

Interest rate risk management is overseen by the Audit, Risk and Finance Committee, assisted by the Asset/Liability Committee and the Loans Committee. Management regularly assesses risk exposure and mitigating actions are taken to cover this risk.

Table 33: Exposure to interest rate risk

As at 31 December 2019 (in thousand USD)	Total sensitivity balance	Non interest bearing	Fixed interest rate	Total
Bank and cash balances	6 491	0	0	6 491
Short term deposits	50 482	0	0	50 482
Loans and advances to customers	77 430	15 833	21 372	114 635
Total financial assets	134 404	15 833	21 372	171 608
Liabilities	40 924	0	25 969	66 894
Line of credit	0	0	4 763	4 763
Medium term notes	0	0	0	0
Total financial liabilities	40 924	0	30 733	71 657
Net interest gap sensitivity	93 480	15 833	-9 361	99 951

Source: Shelter Afrique

According to Management, should interest rate on financial assets and liabilities vary (increase/decrease) by 50 base points, net income will increase/decrease by USD 467,398.

Market risk is under control.

- **Operating risk**

Operating risk applies to internal and external events and circumstances that may impact the reliability, continuity, quality and efficiency of Shelter Afrique's operations.

Shelter Afrique obtained certification to the ISO 9001, version 2015 in 2019, following the improvement of the governance framework.

In view of the health crisis that began in early March 2020 in Africa, Management has put in place appropriate measures to ensure business continuity and taking into account the WHO recommendations, formalized through a Business Continuity Plan in May 2020.

As part of the business continuity plan, Management has adopted a crisis management plan and an emergency response plan. The emergency response team helps to manage the crisis. Several measures have been taken including staff rotation at the Head Office and other offices, working remotely with partners, computer maintenance to avoid data piracy, etc.

The internal audit report on the review of the Business Continuity Plan and risk management during the Covid 19 period from March to May 2020 found that they are implemented satisfactorily.

The operating risk is under control.

- **Capital adequacy ratio[29]**

Capital adequacy is regularly monitored by Management, and quarterly by the Board of Directors.

Shelter Afrique has decided to follow the regulations of the Basel 2 Committee for the capital adequacy system.

[29] Capital adequacy ratio is obtained by taking the company's capital base expressed as a percentage of its risk-weighted assets.

The minimum ratio set by the Board of Directors to protect the company against unexpected losses is 25%.

Table 34: Capital adequacy ratio

	2018	2019
Venture capital ratio	26,60%	27,54%

Source: Shelter-Afrique

Capital adequacy ratio has increased slightly to 27.54%, due to the shareholder's contributions.

Estimating that the Covid 19 crisis would last no more than 6 months (March to September 2020), Management hopes to raise USD 10 million in equity capital, to bring capital adequacy ratio to 30% by the end of 2020.

This objective may not be reached, due to the ongoing crisis which is creating strains on the public finances of member states.

Long-term capital and financing

Tableau 35: Debt between 2016 and 2019

In thousand USD	2015	2016	2017	2018	2019	Variation
Paid-in capital	62 232	62 600	88 622	130 660	140 638	9 978
Profit-sharing bonus	16 075	16 359	36 474	0	0	0
Revaluation reserve	2 873	2 873	2 841	2 809	2 778	-32
Other accrued reserves	24 333	11 173	3 410	-28 353	-29 580	-1 227
Special reserves SHAF Foundation	352	352	352	1 670	1 585	-85
Total equity (A)	105 864	93 356	131 699	106 786	115 421	8 635
Credit lines	158 431	188 998	144 837	108 490	66 894	-41 596
Bonds	66 142	47 160	28 812	8 285	4 763	-3 522
Total debt (B)	224 573	236 158	173 649	116 775	71 657	-45 118
Debt ratio (B)/(A)	2,12	2,53	1,32	1,09	0,62	

Source: Shelter-Afrique

Debt ratio has improved as it dropped to 0.62 thanks to the increase in equity and the continued repayment of loans.

Table 36: Status and analysis of credit lines by maturity between 2018 and June 2020

In thousand USD	Start date	Maturity	Currency	Initial amount	2018	2019	juin-20
African Development Bank (AFDB)	2010	2021	USD	20 000	9 316	9 316	2 369
AfDB trade finance	2014	2019	USD	30 000	11 920	4 151	6 042
AFD USD Loan	2014	2023	USD	20 000	11 250	6 558	4 349
Commercial Bank of Africa USD	2015	2019	USD		1 880		
Commercial Bank of Africa-KES	2015	2019	KES	8 086	8 346	6 125	3 866
European Investment Bank	2014	2020	USD	16 463	7 050	4 208	2 791
AFD in Ksh for financing affordable housing	2013	2023	KES	4 212	3 686	2 379	1 490
KFW BANKEGRUPPE	2015	2024	USD	50 000	19 650	11 734	7 783
Ghana International Bank	2017	2019	USD	5 000	2 183	1 304	865
CFA-West African Development Bank (BOAD)	2017	2020	CFA	8 366	5 352	3 127	2 080
Islamic Corporation for Development	2015	2019	USD	40 000	26 200	15 645	10 368
Interest expense			USD		1 657	2 347	
Total				202 127	108 490	66 894	42 003
Analysis of loans by maturity							
Maturity:							
(I) Within a year					78 734	26 351	
Between 1 and 5 years					29 756	40 072	
Above 25 years						470	
Total					108 490	66 894	
Total liquid assets					44 459	56 973	

Source: Shelter-Afrique

As a measure to exit from the crisis and to restore its financial balance, in 2018 Shelter Afrique signed a standstill agreement with its creditors on the restructuring of its debt.

Shelter Afrique thus obtained from the 8 banks concerned the signature of letters of intent for debt restructuring in 2019. In 2019, a Contractual Bilateral Agreement for debt restructuring was concluded with the two (2) lending commercial banks (Ghana International Bank and Commercial Bank of Africa-Kes).

Following an agreement in principle reached in 2019 as part of the restructuring of the loan taken with Development Financial Institutions (DFIs), it was formalized in May 2020 due to the lengthy procedures at the DFIs.

The main features of the agreement signed with commercial banks and DFIs are:

- loan repayment period spread over 60 months, until June 2024;
- payment of 20% of the outstanding loan in proportion to the borrowers at the signing of the agreement;
- exclusive payment of interest by 31 December and 30 June.

Table 37: Rate of gradual repayment of restructured debts

Line of credit	2020	2021	2022	2023	2024	Total
Repayment rate of restructured debts	21,6%	22,8%	16,9%	5,9%	32,8%	100,0%

Source: Shelter-Afrique

The Standstill Agreement has enabled Shelter Afrique to make a repayment of US$47,852,000 in 2019, instead of the US$78,734,000 initially planned.

Thanks to the implementation of the DRA, the installments due by Shelter-Afrique were spread between 1 and 5 years (from 27.4% to 60% of the debt), against a concentration, before restructuring, over the year in progress (from 72.6% to 39% of debt), thus reducing the pressure on cash.

As at the end of June 2020, the balance of borrowings was US$ 42 million, representing a repayment of US$ 24.981 million in the first half of 2020.

Bonds issued on the Regional Stock Exchange (BRVM) will be fully repaid in February 2021. The balance as at 30 June 2020 is US$ 3.346 million.

Support from the environment and risk of interference

- **State support**

Shelter Afrique is institutionally supported by the State of Kenya through the headquarters agreement entered since its inception, as well as the regular increase of its contribution to the capital.

Kenya remains the second largest shareholder in the capital of Shelter, with a share up 0.99 points from 15.26% in 2018 to 16.25% in 2019.

Kenya is thus showing its support for the development of Shelter Afrique's activities and restructuring.

Shelter Afrique's projects in Kenya are 31 out of a total of 71 projects, amounting to US$ 58 million out of a total of US$ 186 million in loans granted to all countries, i.e. a 31% share.

- **Regulation and practices**

Shelter-Afrique entered a headquarters agreement with the Republic of Kenya in 1983.

As a Multilateral Development Bank (MDB), Shelter-Afrique is not subject to the regulations of any external control body.

The Board of Directors is responsible for setting internal prudential rules with regard to liquidity, provisioning and asset/liability management.

These rules represent a preventive support for Shelter Afrique, as they protect the company against several categories of risk. They derive from international regulations such as ISO 31000, COSO and Basel 3.

Shelter Afrique also has a callable capital of US$ 500 million, which can be used in the event of difficulties.

As at 31 December 2019, the company's called-up capital remained unchanged at US$ 183.903 million, of which US$ 97.388 million was paid in 2019 compared to US$ 91.760 million in 2018.

- **Shareholder support**

Category A shareholders: States

Shelter Afrique's Class A shareholders are the 44 countries that hold shares in its capital.

In 2019, the share of this category of shareholders increased from 78.54% to 79.75% of the capital, in connection with the US$ 9.8 million contributions made in 2019.

Shareholder arrears amounted to US$260 million in 2019 compared to US$ 270 million in 2018.

This reduction is attributable to the Management's strategy, which aims at strengthening its relations with its Member States to ensure successful mobilization of capital; in fact, the capital represents the main source of financing of Shelter Afrique, especially since the suspension of its activities.

However, annual commitments made by shareholders are still not met, with a contribution of only US$ 9.8 million out of US$ 20 million pledged.

Shelter Afrique continues to receive support from its shareholders because of the strategic importance of the institution. However, the ability of States to promptly support the institution in case of default is yet to be established.

The total amount of loans to a shareholder country is based on commercial risks in the assessed country, which are determined by the Enterprise Risk Management Department in accordance with the company's risk management policies. The proportion of commitments is based on the following limits

Table 38: Rating and proportion of commitments

Score	Characteristics	Proportion of commitments
Low-Medium Low	Low risk countries	30%
Medium-Medium-high	Moderate risk countries	25%
High	High-risk countries	15%

Source: Shelter Afrique

Category B shareholders: Institutions

✓ *African Development Bank*

In 2019, AfDB remains the majority shareholder of Shelter Afrique with 15.71% share in the capital, down 0.95 point compared to 2018 (16.56%).

AfDB's participation in the capital of this institution is in line with its strategy of transforming and enhancing growth in Africa.

Shelter Afrique still has the US$ 20 million credit line granted by AfDB when it suspended its activities in 2017.

AfDB's ability to intervene promptly, if necessary, is proven.

✓ *Africa Re*

The African Reinsurance Corporation (Africa Re) holds 4.64% of the capital of Shelter Afrique in 2019 (4.93% in 2018).

In addition to AfDB, Shelter Afrique can also count on the support of this institution in case of financial difficulties.

Outlooks

Shelter Afrique's objective is to increase the contribution of its shareholders in its capital, up by a minimum of 20 million US dollars per year.

Also, the institution intends to reduce non-performing loans (NPLs) by at least US$15 million per year.

However, in view of the negative effects of the Covid-19 pandemic on the economy, Shelter had to readjust its projections for the year 2020.

Thus, annual shareholder contribution is at least $10 million and NPL reduction target has been set at $7 million.

Table 39: Original budget and post-Covid revised budget

	Parameters	Original budget (in million USD)	Revised budget after Covid (in million USD)
1	Approvals	140,00	140,00
2	Commitments	103,60	103,60
3	Disbursements	77,70	58,80
4	Capital subscription	20,00	10,00
5	Loans	31,50	15,30
6	Average borrowing rate	0,07	0,07
7	Capital expenditure	0,54	0,49
8	interest income	15,35	13,72
9	Interest expenses	- 5,69	- 5,69
10	Income from fees	1,29	0,69
11	Operating expenses	- 8,50	- 8,50
12	Gaps	- 3,00	- 4,60
13	Gains /Losses net of exchang	- 0,95	- 1,24
14	Profit or Loss	0,64	- 3,37

Source: Shelter Afrique

However, Shelter Afrique is counting on the lifting of certain restrictive measures taken by the government, particularly the opening of borders, in order to better deploy its strategy for the development of its activities. Also, PPP partnerships with member states will be better monitored.

In 2020, Shelter Afrique has developed 3 new complementary products that meet the needs of housing supply and demand. These include:

- on the supply side, the "PPP" flagship product (validated at the end of 2019), intended for the implementation of large-scale projects to meet the demand for affordable housing in the country;
- still on the supply side, the "social housing" product (validated in June 2020), which involves marketing appropriate housing solutions for low-income customers, particularly rental or lease-purchase housing for the urban population;
- on the demand side, "lines of credit", (validated in June 2020), to grant loans in response to housing supply and
- still on the demand side Trade finance product.

Annex 1

BALANCE SHEET (In USD)

ASSETS	2015	2016	2017	2018	2019
Cash and Bank	10 363 874	20 432 294	19 455 234	13 681 945	6 491 129
Term deposits	30 470 444	7 706 836	21 982 912	30 777 049	50 482 387
Currency swap receivable/financial asset derivatives	524 436	62 346	-	1 914	346 386
Assets available for sale	4 550 813	4 890 434	4 810 108	4 727 903	4 643 805
Investments	-	-	-	-	-
Loans and advances to customers	274 280 845	283 114 050	247 401 988	165 186 856	114 634 813
Sundry debtors	2 820 501	4 004 258	2 385 049	2 200 067	3 836 796
Joint Venture Investment	2 212 837	4 978 971	4 557 538	3 667 233	3 696 255
Equity securities	4 750 450	5 449 320	5 756 353	3 998 034	3 960 000
Property investments	-	-	-	-	-
Tangible fixed assets	5 325 889	5 459 737	5 191 898	4 957 618	4 758 284
State subsidy	120 264	116 385	112 505	108 626	104 746
Intangible fixed assets	431 857	293 158	205 674	124 786	177 674
TOTAL ASSETS	335 852 210	336 507 789	311 859 259	229 432 031	193 132 275
LIABILITIES	**2015**	**2 016**	**2 017**	**2 018**	**2 019**
Credit lines	158 431 129	188 997 801	144 837 412	108 489 934	66 893 621
Bonds	66 142 135	47 160 130	28 811 711	8 285 023	4 763 406
Currency swap payable	-	-	-	-	-
Bank loans	-	-	-	-	-
Trust Fund payable	-	-	585 958	-	-
Sundry creditors	1 134 946	1 138 285	1 040 733	1 885 281	1 746 653
Dividends payable	1 129 579	1 548 143	1 548 143	1 548 143	1 369 118
Provisions	1 651 753	2 475 212	2 095 322	1 558 940	2 166 391
Deferred income	1 498 636	1 831 920	1 241 186	878 257	772 094
Total debt	229 988 178	243 151 491	180 160 465	122 645 578	77 711 283
Share capital	62 232 000	62 600 000	88 622 000	91 760 000	97 388 000
Issue premiums	16 074 604	16 359 068	36 474 074	38 899 748	43 250 192
Revaluation difference	2 872 649	2 872 649	2 840 964	2 809 279	2 777 594
Reserve for credit loss	-	-	-	1 000 000	1 000 000
Reserves	24 684 779	11 524 581	3 035 425	- 161 065	- 911 333
Deficit/Retained Earnings	-	-	726 331	- 27 521 509	- 28 083 460
Total Equity	105 864 032	93 356 298	131 698 794	106 786 453	115 420 993
TOTAL LIABILITIES	335 852 210	336 507 789	311 859 259	229 432 031	193 132 276

Annex 2

INCOME STATEMENT
(in US dollars)

In USD	2015	2016	2017	2018	2019
Interest and similar income	25 143 027	30 545 413	24 728 593	17 616 667	15 337 668
Interest and similar expenses	- 12 944 977	- 16 768 320	- 13 084 062	- 9 984 283	- 6 703 964
Net interest income	12 198 050	13 777 093	11 644 531	7 632 384	8 633 704
Income from commissions	2 517 718	2 633 315	2 198 176	1 512 971	1 303 730
Income from subsidies	54 129	80 915	49 901	3 879	3 879
Various income	404 206	253 583	241 290	335 896	256 413
Operating expenses	- 10 089 869	- 9 722 704	- 8 845 591	- 9 059 639	- 8 441 643
Expenses on subsidies	- 50 250	- 77 036	- 46 022	-	
Provisions for bad debts	- 9 344 994	- 18 004 670	- 10 855 152	- 9 917 984	- 4 399 090
Other expenses (incl. impairment charges -J	- 800 000	- 1 200 000	-	- 785 283	-
Gains / (Losses) net of exchange	66 030	- 134 171	- 397 948	263 233	234 959
Gains / (Losses) net of joint venture	100 653	- 287 091	- 405 784	- 133 732	21 426
Other impairment charges - Other receivables and investment in shares	-	-	- 1 374 011	-	- 250 142
Recovery of impaired loans and advances	-	-	-	12 768	2 043 128
Recovery of impaired bank deposits	-	-	-	902 436	-
Net income for the year	- 4 944 327	- 12 680 766	- 7 790 610	- 9 233 071	- 593 636
Net gains on revaluation of buildings	987 669	-	-	-	-
Unrealized gain on equity investment	- 3 928	-	-	- 16 837	- 665 193
Net total income	- 3 960 586	- 12 680 766	- 7 790 610	- 9 249 908	- 1 258 829
Return per share	- 80,36	- 203,17	- 100,83	- 102,37	- 13,31

Annex 3
CASH FLOW VARIATION STATEMENT
(in USD)

In USD	2015	2016	2017	2018	2019
A-Operating activities					
Self-financing capacity	-1 532 133	3 612 666	9 819 024	1 909 973	6 278 802
Variation in loans (-) increase (+) decrease	-57 426 562	-8 833 204	35 712 032	82 215 132	50 552 043
Variation in investment securities	0	0	0	2 166 353	0
Variation in derivatives financial liabilities	28 800	0	585 958	-587 872	-344 472
Variation in other receivables	-382 810	-1 183 757	1 619 209	184 982	-1 636 729
Variation in fixed asset acquisition	-4 623 512	-351 521	0	0	0
Variation in currency swap receivable	-524 436	462 090	62 346	0	0
Variation in other debts	498 361	839 207	-477 442	308 166	483 007
Variation in deferred revenue	915 722	333 284	-590 736	-362 929	-106 163
IFRS 9 Impairment through retained earnings	0	0	0	-19 046 454	0
IFRS 9 Impairment through investment revaluation reserve	0	0	0	-2 166 353	0
Dividends payable	0	0	0		-179 025
Variation of WCR (+) decrease (-) increase	-61 514 437	-8 733 901	36 911 367	62 711 025	48 768 661
Cash flow from operating activities	-63 046 570	-5 121 235	46 730 391	64 620 998	55 047 463
B-Investment activities					
Acquisition of inalienable assets	-602 519	-462 623	-54 733	-35 790	-45 052
Acquisition of intangible assets	-65 408	-52 617	-17 123	-21 752	-199 413
Proceeds from sales of properties held for resale	0		80 324	82 205	84 098
Shareholding	-1 816 373	-698 871	-795 495	-424 871	-652 188
Net cash flow used in investing activities	-2 325 655	-4 271 861	-787 027	-400 208	-812 555
C-Financing Activities					
Resources mobilized	79 980 179	55 456 953	56 137 006	5 563 674	9 964 260
including resources from subscriptions	2 498 157	640 053	46 137 006	5 563 674	9 964 260
including income from loans	75 849 750	54 816 900	10 000 000	0	0
including income from bonds	1 632 272	0	0	0	0
Repayments	-34 745 324	-58 624 873	-88 781 384	-66 763 616	-51 684 980
including repayment of loans	-15 854 493	-24 507 128	-55 194 229	-35 990 714	-42 221 877
including repayment of bonds	-5 065 125	-18 130 400	-19 676 708	-20 090 873	-3 426 791
including interest paid	-11 768 120	-14 290 042	-12 844 742	-9 213 014	-5 986 106
Deferred charges	0	-84 290	0	0	0
Other financial charges	-1 874 772	-1 552 145	-1 061 805	-1 455 715	34 869
Special reserves - SHAF Foundation	0	-54 719	-3 900	-13 300	-85 075
Dividends paid on common shares	-182 814	-6 149	0	0	0
Net cash flow (used)/generated by financing activities	45 234 855	-3 167 920	-32 644 378	-61 199 942	-41 720 720
D-(Decline)/ Increase in net balance of liquidities and equivalent	-20 137 370	-12 561 016	13 298 986	3 020 848	12 514 188
Cash flow as at 1 January	60 905 658	40 834 318	28 139 130	41 438 116	44 458 964
Cash flow at 31 December	40 834 318	28 139 130	41 438 116	44 458 964	56 973 152

Annex 4
CAPITAL BREAKDOWN (in USD '000)

	Class A shareholders:	Shares of paid-up capital	%	Shares of paid-up capital	%	Shares of paid-up capital	%
	Country	31-Dec-2017		31-Dec-2018		31-Dec-2019	
1	Algeria	4 220	4,76%	4 220	4,60%	4 220	4,33%
2	Benin	306	0,35%	306	0,33%	306	0,31%
3	Botswana	839	0,95%	839	0,91%	839	0,86%
4	Burkina Faso	951	1,07%	951	1,04%	951	0,98%
5	Burundi	300	0,34%	300	0,33%	300	0,31%
6	Cameroon	4 135	4,67%	4 135	4,51%	4 135	4,25%
7	Cape Verde	16	0,02%	16	0,02%	16	0,02%
8	Central African Republic	271	0,31%	271	0,30%	271	0,28%
9	Chad	1 090	1,23%	1 090	1,19%	1 090	1,12%
10	Congo	516	0,58%	516	0,56%	516	0,53%
11	Democratic Republic of the Congo	600	0,68%	600	0,65%	600	0,62%
12	Djibouti	300	0,34%	300	0,33%	300	0,31%
13	Gabon	1 283	1,45%	1 283	1,40%	1 283	1,32%
14	The Gambia	321	0,36%	321	0,35%	321	0,33%
15	Ghana	6 315	7,13%	6 315	6,88%	6 315	6,48%
16	Guinea	419	0,47%	419	0,46%	419	0,43%
17	Guinea Bissau	25	0,03%	25	0,03%	25	0,03%
18	Equatorial Guinea	301	0,34%	301	0,33%	301	0,31%
19	Cote d'Ivoire	3 743	4,22%	3 743	4,08%	4 696	4,82%
20	Kenya	12 023	13,57%	14 006	15,26%	15 829	16,25%
21	Lesotho	500	0,56%	500	0,54%	1 789	1,84%
22	Liberia	309	0,35%	591	0,64%	591	0,61%
23	Madagascar	327	0,37%	327	0,36%	327	0,34%
24	Malawi	522	0,59%	522	0,57%	522	0,54%
25	Mali	4 237	4,78%	4 237	4,62%	4 754	4,88%
26	Mauritania	639	0,72%	639	0,70%	639	0,66%
27	Mauritius	115	0,13%	115	0,13%	115	0,12%
28	Morocco	2 542	2,87%	2 728	2,97%	2 966	3,05%
29	Namibia	1 325	1,50%	1 526	1,66%	1 843	1,89%
30	Niger	318	0,36%	318	0,35%	318	0,33%
31	Nigeria	10 430	11,77%	10 430	11,37%	10 430	10,71%
32	Rwanda	1 422	1,60%	1 786	1,95%	1 986	2,04%
33	Sao Tome & Principe	16	0,02%	16	0,02%	16	0,02%
34	Senegal	1 407	1,59%	1 407	1,53%	1 407	1,44%
35	Seychelles	300	0,34%	300	0,33%	300	0,31%
36	Sierra Leone	74	0,08%	74	0,08%	74	0,08%
37	Somalia	10	0,01%	10	0,01%	10	0,01%
38	Swaziland	228	0,26%	228	0,25%	228	0,23%
39	Tanzania	325	0,37%	325	0,35%	325	0,33%
40	Togo	162	0,18%	162	0,18%	162	0,17%
41	Tunisia	300	0,34%	300	0,33%	300	0,31%
42	Uganda	1 410	1,59%	1 532	1,67%	1 777	1,82%
43	Zambia	2 553	2,88%	2 553	2,78%	2 599	2,67%
44	Zimbabwe	1 457	1,64%	1 457	1,59%	1 457	1,50%
	Class B shareholders:						
	Institutions						
1	African Development Bank	15 200	17,15%	15 200	16,56%	15 200	15,61%
2	Société Africaine de Réassurance(AFRICA RE)	4 520	5,10%	4 520	4,93%	4 520	4,64%
	TOTAL	88 622	100,00%	91 760	100,00%	97 388	100,00%