

## CASE STUDY

# Customizing the IDA 18 Scale-Up Facility Loan

## Supporting Affordable Housing Finance in West Africa

### OVERVIEW

The West African Economic and Monetary Union (WEAMU) region, comprising Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo, has experienced solid growth since 2012. However, housing remains a significant challenge for the majority of the population, who live on less than US\$3.1 a day. A US\$155 million IDA loan-grant combination is helping the regional mortgage refinancing company CRRH-UEMOA and the West African Development Bank extend long-term affordable loans to banks and microfinance companies to serve these underserved households.

### Background

As of 2017, approximately 40 percent of the 110 million WAEMU region residents lived below the extreme poverty line. The population of the region is expected to double over the next 20 years, and 800,000 new housing units will be needed annually. Yet WAEMU banks issue only 15,000 new mortgages each year, a tiny fraction of the estimated needs. The prognosis is especially bad for households with limited or nonexistent access to the banking/mortgage system. The WAEMU Affordable Housing Finance project was designed to address this challenge.



Family in Senegal Village Photo credit: Martin Lindsay / Alamy stock photo.

### Financing Objective

The IDA financing under the project has several objectives:

- Facilitate approximately 50,000 new mortgage loans over five years.
- Target households with low or irregular incomes that are excluded from the mainstream financial system by supporting caps on loans equal to US\$26,000 for banks and US\$17,000 for nonbanks.
- Crowd in private sector financing by incentivizing lenders to develop underwriting systems for this segment of the population; under a base case scenario, US\$1 of IDA funding is expected to leverage US\$5 of private finance.
- Significantly lengthen loan maturities to make housing finance more affordable.

## Financial Solution

A US\$130 million IDA loan, in line with the IDA18 Jobs and Economic Transformation theme, was combined with a US\$25 million IDA grant. The loan borrower, the West African Development Bank, will channel the loan to CRRH-UEMOA (Caisse Régionale de Refinancement Hypothécaire de l'UEMOA), which will in turn extend long-term loans to local banks and microfinance institutions. The grant will finance technical assistance to build the long-term capacity of banks to develop underwriting processes.

The IDA loan was provided from the IDA18 Scale-Up Facility (SUF) Window, which provides loans at nonconcessional terms. A working group comprising multiple World Bank teams accelerated the implementation of the IDA18 SUF Window so that the project could secure the loan in time.

The West African Development Bank is a regional entity supported by multiple sovereigns. The entity needed to be approved as an eligible borrower by the World Bank legal team and Board of Executive Directors.

With the exception of Senegal and Côte d'Ivoire, all WAEMU members are low-income countries that receive IDA grants and/or regular credits charging no or low interest. The IDA18 SUF loan terms are at market rates (like IBRD loans) and comparatively more complex compared to IDA grants, offering borrowers many choices in loan terms. The World Bank Treasury Financial Products team helped the borrower understand the structure of the SUF loan and fully customize it to meet project needs, as follows:

- **Repayment schedule.** A disbursement-linked repayment schedule was selected to allow CRRH-UEMOA and the West African Development Bank to on-lend to local banks with the same repayment schedule over time. This was the first time that IDA countries had used this option.
- **Risk management options.** The borrower selected options that made it possible to convert the loan from a floating to fixed interest rate (and vice versa), as well as change the currency of the loan. These options allow the borrower to benefit from all of the loan's risk management features. In addition:

- An exception was granted to the borrower allowing a cap to be set on the rate at which each tranche of the loan would be fixed at disbursement. This is not a feature typically offered in the automatic rate fixing option.
- An exception was granted allowing the capitalized front-end fees to be fixed as part of the first disbursement of the loan. The exception was required because the fees (equal to US\$325,000) were below the World Bank's minimum threshold (US\$3 million) for interest rate fixing. The borrower later decided not to capitalize the front-end fees.
- A systematic process was established to synchronize the disbursement of the loan and conversion of the floating interest rate to fixed rate; this step ensured that the borrower was not exposed to interest rate risk between disbursement and conversion (typically 10 days).

## Outcome

On October 13, 2017, World Bank extended a US\$130 million equivalent scale-up credit to the West African Development Bank (BOAD) along with a regional grant in the amount of US\$25 million equivalent to the West African Economic and Monetary Union (WAEMU). The loan allows local banks and microfinance institutions to extend the term of their loans to households with moderate and irregular incomes. This was the first IDA18 SUF loan approved by the World Bank.

This project has numerous secondary development benefits. It creates jobs and supports the construction of cheaper housing; moreover, by bringing the most vulnerable in the region into the financial system for the first time in their lives, it develops a financial marketplace for this population.

Customizing IDA loans is one of the many ways the World Bank helps member countries become more resilient to economic shocks. IBRD's AAA credit rating, market presence, and convening power enable the World Bank Treasury's Financial Products team to develop innovative new products that help clients maximize financing and mitigate risk.