

Customizing the IDA 18 Scale-up Facility (SUF) loan

Supporting Affordable Housing Finance in West Africa

OVERVIEW

The West African Economic and Monetary Union (WEAMU) region, comprising Benin, Burkina, Cote 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-UEMOA¹ and the West African Development Bank extend long-term affordable loans to banks and microfinance companies to serve these underserved households.

Background

Approximately 40% of the 110 million people living in the WAEMU region (as of 2017) live below the extreme poverty line. The population is expected to double over the next twenty years, needing 800,000 new housing units every year. Yet WAEMU banks issue only 15,000 new mortgages per year, a tiny fraction of the estimated needs. The prognosis is especially bad for households with limited or non-existent access to the banking/mortgage system. The WAEMU Affordable Housing Finance project was designed to address this challenge.



Family, Village of Peulh aka Fulani Senegal, Photo credit Martin Lindsay / Alamy Stock Photo

Financing Objective

The objective of the financing is to

- Facilitate approximately 50,000 new mortgage loans over five years.
- Target households with low or irregular incomes who are excluded from the mainstream financial system by supporting caps on loan size of USD eq. 26,000 for banks and USD eq. 17,000 for non-banks.
- Crowd-in private sector financing by incentivizing lenders to develop underwriting systems for this segment of the population. Under a base case scenario, one dollar of IDA

¹ CRRH-UEMOA- La Caisse Régionale de Refinancement Hypothécaire

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 Job and Economic transformation theme, was combined with an IDA grant. The borrower of the loan is the West African Development Bank who will channel the loan to CRRH-UEMOA, which will 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 Window which provides loans at non-concessional 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 with no or low interest rates. The IDA18 SUF loan terms are at market rates (same as IBRD loans) and comparatively more complex, 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:

- **Repayment schedule:** A Disbursement-linked repayment schedule was selected to allow CRRH-UEMOA and the West African Development Bank 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:** Options to convert the loan from floating to fixed (and vice versa) and change the currency of the loan were selected so that the borrower could benefit from all risk management features of the loan. In addition:

- i. An exception was granted to the borrower to set a cap 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.
- ii. An exception was granted to fix the capitalized front-end fees as part of the first disbursement of the loan. The exception was required because the fees (USD eq. 325K) were below the World Bank's minimum threshold (US\$3m) for interest rate fixing. The borrower later decided not to capitalize the front-end fees.
- iii. A systematic process was established to synchronize the disbursement of the loan and conversion of the floating interest rate to fixed rate, so that the borrower was not exposed to interest rate risk between disbursement and conversion (typically ten days).

Outcome

On October 13, 2017, the West African Development Bank, the WAEMU Commission, the CRRH-UEMOA and the World Bank signed an IDA18 SUF loan of US\$130 million to West African Development Bank, and a US\$25 million regional IDA grant. 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 Scale-up Facility (SUF) loan approved by the World Bank.

This project has numerous secondary development benefits such as job creation; supporting the construction of cheaper housing; and creating a financial market place for the most vulnerable in the region, as most households will be part of the financial system for the first time in their lives.

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 enables Treasury's Financial Products team to develop innovative new products to help clients maximize financing and mitigate risk.