Centre for Affordable Housing Finance in Africa

AFFORDABLE HOUSING INSTITUTE

HOUSING INVESTMENT LANDSCAPES

SENEGAL COUNTRY REPORT

2019

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Contents

This country report forms part of The Centre for Affordable Housing Finance's Investor Programme, which aims to reduce key information asymmetries on who, why and how investments are made in the African housing sector. With the intention of identifying and championing increased investment in affordable housing, the report includes insights and analysis into the depth and breadth of investment in South Africa's housing and housing finance sector.

The overall goal of this project is to quantify the breadth of investment activity in housing and housing finance across Africa and to establish a mechanism to track this on an ongoing basis. This project has collected data on, and highlights gaps and opportunities in the investment landscape. With the aim of stimulating greater investment in affordable housing and connecting investors with potential investments, the report profiles investors and investment instruments with the greatest impact on the housing finance market within the Southern Africa Development Community (SADC).

Growing financial sector experience and increasingly sophisticated financial instruments are driving Investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localized construction material industry and innovations in housing finance such as the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa. However, a key barrier to this growth remains the chronic lack of rigorous data on the housing sector financing infrastructure. This is particularly true for the housing sector, as stimulating targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets (segmenting and quantifying the demand side; and scoping, understanding, and tracking the supply side), we can support a better policy environment and increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of non-performing loans (NPLs) and poor uptake of new residential developments.

Please note that the following report presents conclusions to the extent that available data is representative of broader trends.

1 Executive Summary

Over the past decade, Senegal has emerged as one of Africa's more robust economies, with developed financial and property markets backed by a stable monetary and political environment. GDP growth averaged 6.6 percent between 2016 and 2017 and is expected to stay at 6.8 percent in 2018.[1] Facing an urbanization rate of 3.64 percent and with 43.5 percent of the 16.29 million population already living in urban areas,[2] the government has recognised the need for urban development planning and has embarked on an ambitious infrastructure programme.[3]

In 2015, Senegal launched "Plan Sénégal Emergent (PSE)," an economic development plan whose aims is for the country to reach emerging status by 2035. The plan includes major reforms to boost the economy through entrepreneurship, industrialisation and infrastructure investment. It seeks to attract both local and foreign investment. One of its key reforms is the revision of the 2005-2015 industrial redeployment policy (PRI) to boost industrialisation in provinces with high economic potential, infrastructure construction, the creation of special economic zones and industrial parks.

Housing is not one of PSE's main pillars. Its importance, however, is emphasized vis-à-vis the expansion of Dakar and infrastructure planning. Indeed, compared to many other West African countries, Senegal's support of the housing market is considerable. The state provides both social housing and housing finance through direct subsidy and guarantee programmes. In a World Bank study on Urbanization and Housing Investment, Senegal scored 35 out of 90 countries with a 6.6 percent share of housing supply in the GDP.[4]

Nevertheless, the country faces a shortage of affordable housing. In 2016, the country's housing deficit was estimated to be 322 000 units for the whole of Senegal and 158 000 for Dakar.[5] These figures do not take into account investment in replacing or rehabilitating existing housing stock, much of which is informal and substandard. In 2018 the President announced that the state would aim to build 15 000 new units annually. According to the current housing minister, housing production rose from 4 000 in 2012 to 10 000 in 2016, an encouraging 250 percent increase.[6] Affordability, however, remains a problem. The high costs of construction materials combined with prohibitive interest rates – in the range of 8 to 10 percent according to Banque Habitat Senegal (BHS), the housing bank – has made housing too expensive for the average Senegalese and for low income families. As a result, most housing is delivered through informal channels. An estimated 80 percent of housing in urban Senegal is supplied by the informal sector.[7]

A broad range of local institutions participate in the country's housing finance market, including public sector agencies, commercial banks, housing cooperatives and microfinance institutions. The high level of involvement of housing cooperatives is notable. Foreign stakeholders include DFIs, impact investors and private equity funds.

[1] World Bank and Trading Economics (2018)

[2] The limited land base in Dakar is particularly challenging: The Dakar region covers only 550km² but houses over 20% of the country's population. Approximately 38 percent of the population lives in the broader Dakar-Thies area, which covers just 3.7% of the country's land supply.

[3] World Bank Development Indicators (2015)

[4] Dasgupta, B, Lall, S, and Lozano-Gracia, N. World Bank (2014) Urbanization and Housing Investment.

[5] CAHF Yearbook, 2017

[6] Ibid

[7] World Bank (2015). Stocktaking of the Housing sector in Sub-Saharan Africa - Challenges and Opportunities

2 Financial Sector Overview

As a member of the West African Economic and Monetary Union (WAEMU or UEMOA in French), Senegal shares a common currency, Central Bank (the Central Bank of West Africa, or BCEAO from its French name Banque Centrale des États de l'Afrique de l'Ouset), and joint monetary policy with other member states.

Senegal is one of eight countries that participate in the Bourse Régionale des Valeurs Mobilières, BRVM, the regional Stock Exchange. The other countries are Benin, Burkina Faso, Ivory Coast, Guinea Bissau, Mali, Niger, and Togo. Three Senegalese companies are listed on the exchange; none of the 45 companies listed are involved in real estate.

Senegal's current sovereign credit rating from Standard and Poor is B+ with a positive outlook and from Moody's it is Ba3 with a stable outlook. In March 2018, the country successfully raised debt on the international capital markets by issuing €1 billion (US$1.2 billion) of Eurobond notes with an average life of nine years and a separate US$1 billion 29-year tranche. The Euro notes yielded 4.75 percent and the dollar securities 6.75 percent. According to the Finance Ministry, more than US$10 billion of order was placed for the US$2.2 billion Eurobonds, as debt from African governments remains in high demand.[8]

3 Investor Profiles

The investment landscape in Senegal is diverse and includes both local and foreign institutional investors. Below is a description of the two categories of investors, detailing their institutional type, sources of capital, and other parameters that define their investment models.

3.1 Local Institutional Investors

Capital Markets

Senegal participates in the region's stock exchange but has shallow capital markets. The regional securities and equity market is a marginal source of domestic funding, except for the government. As of August 2018, the regional exchange BRVM had a market capitalization of CFA 5 864 billion (US$10.2 billion). Overall activity is limited, with daily trades of approximately CFA 372 324 991 ($648 000).9

The three Senegalese companies listed on BRVM include SONATEL (telecommunications), TOTAL (oil and gas), and Bank of Africa Senegal (BOA), a large Pan African bank with headquarters in Mali. BOA offers home loans and has been expanding rapidly in Senegal. It received an equity investment (date unclear) from Emerging Capital Partners (ECP), an African Private Equity firm that has raised over US$3 billion since it started operations.

Pension Funds

The formal pension system in Senegal is composed of two mandatory retirement schemes. One is the civil-service pension scheme, called the National Retirement Fund (le Fond National de Retraite or FNR), which covers the majority of civil employees and the other is a pension scheme for private sector employees called the l'Institut de Prévoyance Retraite du Sénégal (IPRES).

Annual reports were not available for either fund, but Senegal's primary mortgage bank (Banque de l'Habitat du Senegal) reports that IPRES owns 8% of the bank, indicating that the pension sector's long-term assets are providing crucial long-term capital to the housing industry. In addition, both pension funds own a 5.5 percent stake in Senegal's National Development Bank (BNDES), which offers home savings accounts. AXXA Insurance also owns a 5.5 percent stake in BNDES.

Domestic Private Equity

Senegal is home to two Dakar-based private equity funds: Brightmore Capital and Teranga Capital, which is related to the French private equity fund I&P. Little information is available on Brightmore's portfolio. Teranga

[8] Capital Markets in Africa (2018). Senegal Is Said to Attract Almost $10 Billion in Eurobond Bids https://www.capitalmarketsinafrica.com/senegal-is-said-to-attract-almost-10-billion-in-eurobond-bids/

[9] BVRM Website – volumes page (n.d.) http://www.brvm.org/fr/volumes/0

Capital has raised CFA 4 billion (US$6.9 million) from I & P, the Sovereign Strategic Investment Fund (FONSIS), SONATEL, ASKIA Insurance, Société Générale Banks in Senegal (SGBS), Africarena Ventures and several Senegalese individual investors. It has deployed CFA 300 million (US$522 000) in the past five years, investing in local SMEs.[10]

Banque de l'Habitat du Senegal (BHS)

Senegal's mortgage bank (BHS) was founded in 1979. Its main objective is to finance real estate and home ownership, emphasizing the affordable housing market. It offers financing to individuals, developers, and Housing Cooperatives. It is one of the largest players in the mortgage market: in 2013, BHS loans represented 30 percent of the country's total housing loans (CFA 203.7 billion).[11]

Table 1 Amounts and percentages of BHS shareholding

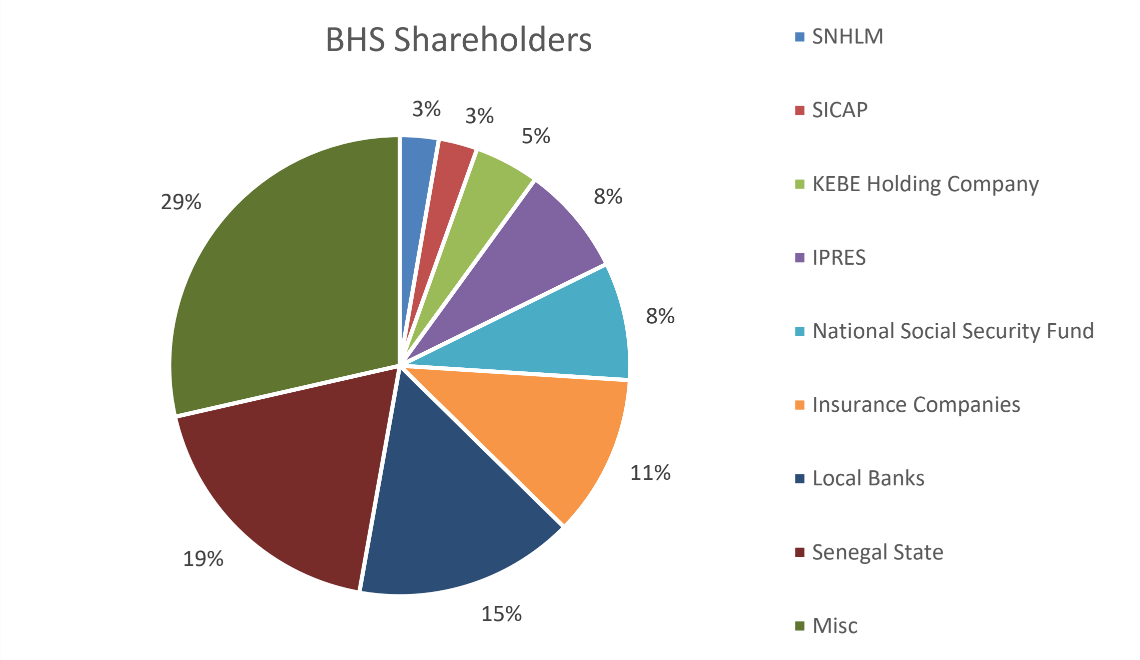
BHS Shareholders (CFA, thousands)	**Amount**	**Percent**
Société Nationale des Habitations à Loyer Modéré, National Affordable Rental Housing Society (SNHLM)	272,700	3%
Société Immobilière du Cap-Vert, state-owned housing developer (SICAP)	272,700	3%
KEBE Holding Company	455,000	5%
IPRES, private sector pension fund	772,660	8%
National Social Security Fund	827,200	8%
Insurance Companies	1,135,710	11%
Local Banks	1,545,300	15%
Senegal State	1,863,020	19%
Misc	2,855,710	29%
Total	**10,000,000**	**100%**

Source: BHS 2016 Annual Report

BHS' capital structure includes CFA 10 billion of equity (US$17.4 million), and it is 18.63 percent owned by the State. Other major shareholders include local banks and insurance companies. BHS' funding structure is evolving as it is beginning to mobilize more long-term funding on both a local and international basis; this is expected to increase its capacity to extend mortgage products with longer term maturity.

[10] Teranga Capital website (n.d) http://www.terangacapital.com/
[11] CAHF Yearbook, 2017

Figure 1 BHS Shareholding percentages



In 2016, BHS reported a CFA 241 billion (US$419 million) credit portfolio. The bank differentiates between short, medium, and long-term loans. Approximately 43 percent of its portfolio was short term, 32 percent was medium term, and 25 percent long term.[12] BHS' standard mortgage terms include a 25-year term and a 6.5 percent interest rate, with zero down payment. Balances on the home loan savings accounts were reported at CFA 97 billion (US$169 million).

Over the course of the past 37 years, BHS has helped finance the construction of new residential areas in Dakar such Grand Médine, Grand Yoff, Ouest-Foire, Golf, and the area around the airport. It has also participated in the development of towns in the interior of the country, such as Thiès and Ziguinchor. Today it is heavily involved in the Diamniadio project, which will be discussed further below.

3.2 Government

The Senegalese government continues to prioritize the lack of decent housing. The backlog is estimated to be about 322 000 units. In an effort to address the housing crisis, the government launched the "Une Famille, Un Toit" (One family, one roof) programme in 2009. The programme encourages the role of the private sector, providing support to real estate developers in terms of tax and import duty breaks. It also creates special legislation for housing cooperatives, and provides free housing and land, tax breaks and a range of subsidies to homebuyers who buy housing that costs less than US$15 000.[13] The government has also encouraged its Housing Bank BHS to offer exclusive financing arrangements on units in the programme.

[12] BHS Annual Report, 2016
[13] Global Property Guide website (n.d.) https://www.globalpropertyguide.com/Africa/Senegal/Price-History

2 Examples of Completed Government-funded Projects

Project Name	Location & Description	Number of Units	Partners
La Cité CDC Bambilor	Affordable Housing project located 30 min from Dakar and 10 min from Lac Rose	4 445 type F3, F4 and F5 villas	La société SRT PHYSALIS (private sector), and la Caisse de dépôt et de consignation (CDC)
La Cité Des Fonctionnaires	Housing for civil servants and Senegalese middle class located near the new city of Diamniadio	2 850 social housing units; the first phase will have 1 200 villas on 150m² plots	Peacock Investments (private sector)
Village Keur Salam	Located in Tivaouane, about 30km north east of Dakar	2 200 social housing units, type F3 on a 150m² plot and apartments	AD INVEST SA (private sector)

Source: Government and developer websites

Caisse des Dépôts

Senegal passed legislation to create a Caisse des Depots et Consignations (CDC, Deposit and Consignment Bank) in 2006, modeled after France's original institution. The CDC is a public bank, mandated to contribute to the economic development of the country by investing in projects such as social housing. As of 2015, it holds CFA 109.7 billion (US$191 million) worth of deposits[14]. Many of its depositors are civil servants. It is an important mobilizer of savings in Senegal. One of its signature housing projects is Cite CDC Bambilor, which forms part of the Government's broader social housing programme and is discussed above.

Société Nationale des Habitations à Loyer Modéré (SNHLM)

Senegal's National Affordable Rental Housing Society (SNHLM) is a state-owned rental housing developer. Units are available under a rent-to-buy scheme and are meant to be priced at an affordable level. The SNHLM model requires land to be allocated to it by the State. In the 2001 to 2012 period (President Wade's term in office), however, the SNHLM was granted little land and therefore its productivity declined. President Macky Sall has more recently revived the institution, signing a new performance contract between the State and SNHLM and assigning the agency 100ha for development.[15]

In addition, since the appointment of a new director in early 2018, several previously stalled projects have been reinitiated, a strategic plan has been devised, and three large developments have been started, such as the city of Ndiakhirate which will contain 1 000 new units.

The SNHLM website lists 12 projects under various phases of construction, with a total budget of CFA 149 306 billion (US$260 million) and 9 457 units. Other sources reference two other projects with an additional 300 units.[16]

[14] Leral.net (20170. https://www.leral.net/Caisse-des-Depots-et-de-Consignation-un-moulin-a-milliards-Role-et-et-missions_a210199.html
[15] Lopy, C J. Setal.net (2016). https://www.setal.net/Mamadou-Kasse-directeur-general-de-la-Sn-HLM-On-etait-dans-une-crise-du-logement_a51538.html
[16] Ibid

Table 3 SNHLM Projects

Project Name	Location & Timeline	# Units/ Plots	Project Cost (billion CFA)
Commune de Tambacounda	2017 start, 3 year construction period.	50 units	1,073
Immeuble Rafia	Gibraltar. Mixed Use development. 2 buildings with residential units. 2017 start with one year construction period	24 apartments, 4 commercial units, 24 office spaces	1,170
Tour Serena	In Fass near Dakar, 8 story building. 2017 start, 1 year construction period	32 apartments	1,320
Patte d'oie	Near Dakar, 8 six story buildigs	120 apartments	4,638
Kenia	Département de Ziguinchor. 2017 start, 5 year construction period	1152 (152 units and 1000 plots)	18,030
Ngallèle	Département de Saint Louis. 2017 start, 5 year construction period	1050 (250 units, 800 plots)	18,877
La cité des corossols (Ndiakhiraate)	Département de Rufisque, Dakar. 2017 start with 2 year construction period.	1779 (1000 units and 779 plots)	28,822
Diamniadio	Département de Rufisque, Dakar. 2017 start with 2 year construction period.	5250 (1565 units and 3685 plots)	75,376
TOTAL		**9,457**	**149,306**

SICAP Société Immobilière du Cap-Vert (SICAP)

The SICAP is a majority state-owned housing developer working on the Cape Verde peninsula. It was originally created by the French in 1951 to provide housing for administrative and military personnel. In 1992, it became a private company with a capital base of CFA 100 million (US$174 thousand) and as of 2004 it is 89.57 percent owned by the State.

SICAP has delivered 13 260 units since its founding, consisting of 5 825 rental units and 7 435 rent-to-buy units. The total amount of invested funds is CFA 55 497 billion (US$97 million), divided as follows:

- CFA 5 939 billion invested in 451ha of land;
- CFA 9 194 billion invested infrastructure such as highways;
- CFA 40 364 billion spent on construction.

The agency has developed 61 communities with about 133 000 inhabitants. Some units are priced for low income households, while some are priced for higher income households. The rent-buy programme requires a down-payment followed by fixed regular payments over a 15-year maximum period.[17]

Fonds de garantie pour des investissements prioritaires (FONGIP)

The Fonds de Garantie Pour des Investissements Prioritaires (Guaranty Fund for Priority Investments, or FONGIP) was created by the State in 2013. To date, approximately CFA 17 016 million (US$29.6 million) has been disbursed by FONGIP to almost 12 000 SMEs.[18]

The FONGIP created a housing-specific fund in 2015 with a capital injection of CFA 1 billion (US$1 739 427) to facilitate access to financing for the construction or purchase of low income housing. The fund is called the Fonds de garantie pour l'acces du lodgement (Guaranty Fund for Access to Housing or "FOGALOG").

FOGALOG has signed an agreement with BHS and the housing ministry to facilitate access to affordable houses for the Senegalese in the informal sector. The 2015 agreement allows Senegalese households with informal income to access special guaranteed housing loans.

[17] https://www.sicap.sn/content/presentation
[18] CAHF Yearbook, 2017

3.3 Foreign Institutional Investors

Foreign Institutional Investors in Senegal's housing market include regional institutions, international Development Finance Institutions (DFIs), and private sector actors from abroad.

Businesses from France, Senegal's former colonial ruler, have long dominated foreign investment. In recent years, however, the country has seen increased interest from further afield. Since 2003, according to data from the UN Conference on Trade and Development (Unctad), most new foreign investment projects into Senegal have come from non-Western countries, including announced projects of US$2.8 billion from the United Arab Emirates, US$1.23bn from South Korea, US$695m from China and US$653m from India (note that these are not necessarily housing projects). France continues to have the largest presence in Senegal, with nearly $2.4bn in accumulated foreign investment, followed by $423m from tax haven Mauritius, according to Unctad.[19]

Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH-UEMOA)

The CRRH-UEMOA is a regional institution. It was established by the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), the Banque Ouest Africaine de Développement (BOAD), and the Conseil Régional de l'Epargne Public et des Marchés Financiers with the intention of encouraging mortgage markets in the UEMOA (West African Economic and Monetary Union or WAEMU) zone. Its mission includes providing long-term resources for refinancing mortgage loans to credit establishments in the UEMOA zone, whether through issuing loans on the regional financial markets, or by mobilizing concessional financing from development partners. The goal is to increase housing finance while deepening local capital markets.

The CRRH-UEMOA issued its first bond in 2012 and has made significant progress since, facilitating nearly 8 000 mortgages. By December 2016 the institution had issued six rounds of bonds, totaling CFA 107 billion (US$186 million) and providing funding to 33 banks in the eight WAEMU member countries. Four Senegalese banks have benefited from the refinancing facility for a total of CFA 20 billion (approximately US$35 million) of funding. BHS in particular has participated in the facility; see the table below for more information.

Table 4 CRRH-UEMOA funding for Senegalese banks

Bank Name	*Issuance Number*	*Amount, CFA thousands*
BHS	6	873 860
BHS	7	11 626 140
Ecobank Senegal	3	1 000 000
Bank of Africa Senegal	4	2 000 000
Banque Atlantique Senegal	2	1 500 000
Banque Atlantique Senegal	4	3 000 000
Total		**20 000 000**

The International Finance Corporation was an original equity investor in the facility, and in January 2018 it announced an additional significant investment. The IFC bought US$9 million of CRRH-UEMOA 12-year local currency bonds by tapping into the US$2.5 billion IDA18 IFC-MIGA Private Sector Window, a development finance tool created to catalyze private sector investment in the lowest income countries eligible for financing from the IDA. In its transaction with CRRH, the IFC aimed to enable the mortgage refinancing company to ramp up its housing portfolio at the same time as it helped to extend the local bond market yield curve. Without the Private Sector Window support through its local-currency facility, the IFC would not have adequate local currency to buy the CRRH-UEMOA bonds. The window provides a protection against currency fluctuations that

[19] Munshi, N. Financial Times (2018). Reputation for stability lures new foreign investors to Senegal https://www.ft.com/content/c9df68b6-2ea6-11e8-97ec-4bd3494d5f14

enables IFC to buy the bonds. The local currency facility allows the IFC to provide financing in local currency for high-impact projects in countries where local currency solutions are under-developed or non-existent.[20]

The CRRH-UEMOA's ability to expand, however, is still limited by a combination of factors, including the low development of the housing sector in the region as well as the ongoing scarcity of long-term capital in the local currency. The World Bank group has attempted to address this concern with other financial support, detailed below.

Case Study: DFI Support of Housing Finance in WAEMU

There have been two significant investments into affordable housing finance in WAEMU, both initiated by the World Bank Group. The first was agreed upon in October 2017, when The West African Development Bank (BOAD), the WAEMU Commission, the West African regional mortgage refinance company (CRRH-UEMOA) and the World Bank signed a US$155 million package to support the development of affordable housing finance in WAEMU. The US$155 million package consists of an International Development Association Scale-up credit of US$130 million to BOAD, the first IDA Scale-Up Facility credit to a regional organization, and a US$25 million regional IDA grant to the WAEMU.

Funding from IDA will be channelled from BOAD to CRRH-UEMOA, which will extend long-term loans to banks and microfinance companies, allowing them in turn to extend the term of their loans to households with moderate and irregular incomes. IDA funding into CRRH-UEMOA is expected to facilitate about 50 000 new mortgages and will leverage much greater amounts of investment into affordable housing through the bond-raising activity of CRRH-UEMOA. Overall it is estimated that one dollar of IDA will leverage about five dollars of private finance

In addition, the project will provide technical assistance to develop the enabling environment to support the construction of cheaper housing. The technical assistance element of the project is aimed at strengthening national housing policies and supporting the increased provision of secured and serviced land.

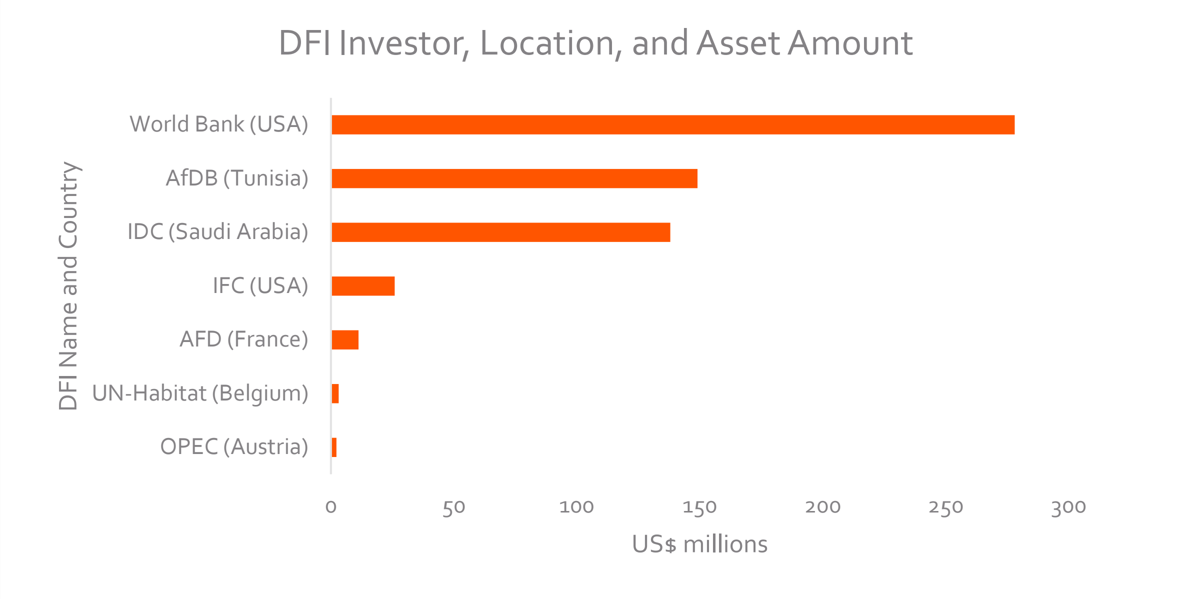
The project is also expected to support job creation. Housing investment has a strong multiplier effect across the economy given the number of linked sectors, whether it is production of raw material, the construction sector, finished goods or financial services. Applying a conservative job multiplier of five to the additional mortgages originated by the project would result in the creation of about 250 000 jobs across the WAEMU region.

DFI Investment

Senegal has received significant funds from DFIs. The graph below includes DFI investment aimed at supporting the financial sector, lending to SMEs, and the broader housing market. They total approximately US$608 million. Seven investments totaling US$457 million are specifically housing-related.

[20] IFC (2017). IFC Uses Innovative Tool to Help Unlock $500 million in Housing Finance in West Africa https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/7E158950CE863FCB85258220002B0A5B?OpenDocument

Figure 2 DFI Investor Details



The largest investment to date is the aforementioned World Bank US$130 million loan and US$25 million grant to support the CRRH-UEMOA. The second largest is the African Development Bank's US$149 million loan in support of Senegal's Promoville, a government programme to modernise Senegal's urban landscape. Saudi Arabia's Islamic Development Bank also granted US$138 million in credit in 2017 for the programme. In 2008, the IFC extended US$8.2 million in debt to finance the development of SEA plaza, a mixed-use project in Dakar that included residential units. The housing in SEA plaza, however, is high-end.

In 2012, AFD (the French DFI) extended a €8 million (US$14 million) line of credit to BHS to help develop low-cost housing. The line of credit will enable BHS to offer individuals with monthly incomes of CFA 350 000 (US$609) or lower mortgage refinancing in the medium and long term.

UN-Habitat has been especially active in Saint Louis, where it provided technical assistance in 2007 and 2011 to improve access to sustainable housing finance mechanisms for the city's disaster-prone urban poor population. The technical assistance was valued at a combined US$2.7 million. Finally, in 2005, OPEC underwrote a US$2.2 million loan to United Contractors & Builders Senegal Limited for the construction of 1 063 housing units. The project, which was co-financed with Shelter Afrique and the Housing Bank of Senegal, aimed to reduce the city's housing shortage.

Private Equity

French private equity fund I&P is active in Senegal, taking a 20% equity stake in Fides Microfinance and a 32% stake in Sofamac, a cement company. Fides Microfinance provides financial services in rural and peri-urban areas. It has more than 21 000 borrowers (including 85% women) and 37 500 savers.

Africinvest, an investment and financial services company based in Tunisia, invested an undisclosed amount in Bridge Group West Africa, a holding company that has a majority equity stake in Bridge Bank Cote d'Ivoire and a minority equity stake in BNDE (Senegal's National Development Bank).

Emerging Capital Partners (ECP), a Pan-African private equity firm that has raised over US$2 billion through funds and co-investment vehicles for growth capital investing in Africa, has invested in three Senegalese Banks: Bank of Africa (BOA), EcoBank, and OraBank.

Chinese Investment

Although China's presence in Senegal is relatively small compared to its presence in other African countries, the government does appear to be courting Chinese involvement in social housing projects. In December 2017, a Chinese delegation visited with the head of the One Family, One Roof programme and discussed potential investment opportunities.[21]

Like many other African countries, Senegal has a strong trade relationship with China. China is Senegal's second largest trading partner (behind France), supplying much of the West African country's construction inputs as well as building several large infrastructure projects. On 22 July 2018, President Xi Jinping and President Sall signed 10 new agreements, in areas such as justice, economic cooperation, infrastructure, and civil aviation.[22]

News of an agreement with China to construct 50 000 low cost homes surfaced in 2012, however further information was unobtainable.[23]

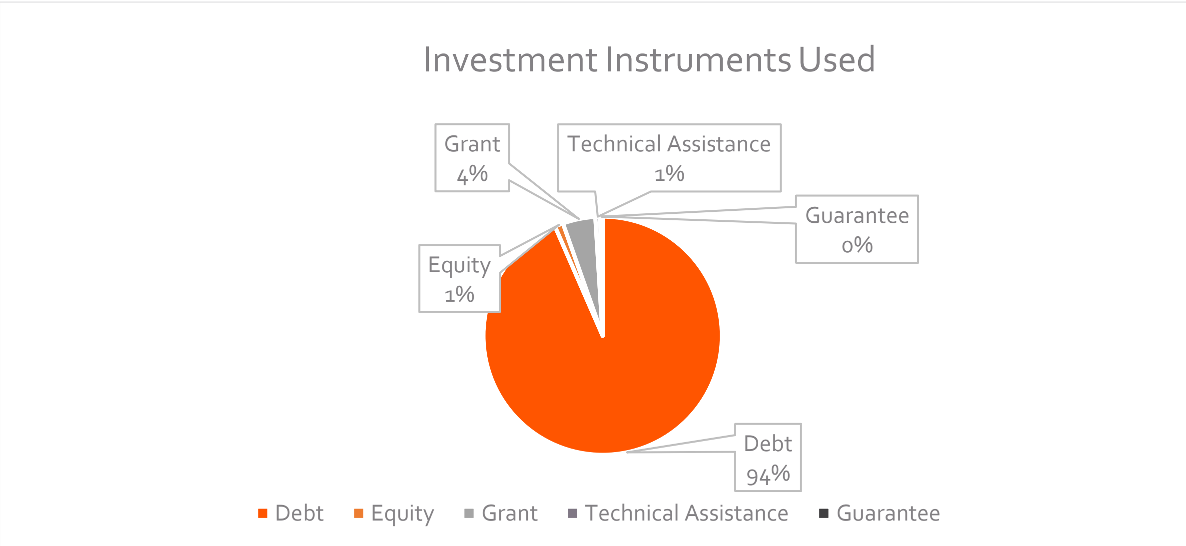
4 Investment Activity in Housing

This section analyses investment levels and different investment tools targeting the housing and housing finance sector in Senegal.

4.1 Top Performing Investment Tools

As the figure below illustrates, the leading investment product for non-government investors in the broader Senegalese housing market has been debt, consisting of both market-rate loans and lines of credit. The fact that the majority of international capital is deployed as debt is reflective of a general, global trend in DFI investing in long-term assets in emerging markets. The data might be skewed, however, as the ticket size of equity investments was frequently undisclosed. The equity investments are therefore underrepresented in the figure below.

Figure 3 Investment instruments



[21] Une Famille Un Toit website of Senegal government (n.d.) http://www.unefamilleuntoit.gouv.sn/fr/actualite/visite-dune-delegation-chinoise
[22] Guineetime.com (2018) https://www.guineetime.com/la-chine-et-le-senegal-ont-signe-samedi-soir-de-nouveaux-accords/
[23] Economist Intelligence Unit (2012). There is new support for low-cost housing development. http://country.eiu.com/article.aspx?articleid=868969471&Country=Senegal&topic=Economy&subtopic=Recent+developments&aid=1&oid=288655413

4.2 Investment Portfolio

Table 5 below gives an indication of the country's housing investment portfolio. It shows the size, activity or strategy, and date of various investments made by institutional investors in Senegal's housing and finance sectors.

Table 5 Senegal's housing investment portfolio

Investor Name	Investment Amount, $USD millions	Investment Activity	Investment Year
World Bank	130	Loan to BOAD, which then channeled funds to the regional mortgage refinance company CRRH-UEMOA	2017
World Bank	25	Grant to BOAD, which then channelled funds to CRRH-UEMOA	2017
IFC	6.5	4 year loan to Union des Mutuelles Alliance de Credit et d'Epargne pour la Production (UM-ACEP), Savings and Credit Union	2017
AfDB	149	Loan to Senegal's government to fund Promovilles, a urban modernization plan	2017
The Islamic Develop	138	Loan to the Government for its Promoville program, an urban modernixation plan	2017
IFC	1.8	Loan to MicroCred Senegal	2014
Bridge Group	NA	32.7% equity stake in BNDE (national development bank), see banking section for more information	2014
UN-Habitat		Participatory Slum Upgrading Program, two years of technical	2014
UN-Habitat	0.425	Developing energy & resource efficiency codes for buildings, 3 year technical assistance program	2013
AFD	9.3	Line of Credit to Senegal's main housing bank, BHS	2012
IFC	1.5	Equity and Technical Assistance package for Fides Microfinance, 4.5 year timeframe	2011
UN-Habitat	2.659	Improved access to sustainable housing finance mechanisms for disaster-prone urban poor population in Saint Louis, 5 year program with two phases	2011
AFD	1.9	Grant for a five-year program to strengthen the capacities of housing cooperatives	2011
IFC	5.2	Equity Investment and Guarantee mechanism for MicroCred Senegal	2010
UN-Habitat	0.126	To assist national and local governments in Benin, Burkina Faso and Senegal to successfully complete first phase of CDS activities, two year program	2010
IFC	2	Guarantee, Risk Sharing Faciilty for EcoBank	2008
OPEC	2.2	Loan to United Contractors & Builders Senegal Limited (UCBS) to build 1,063 housing units	2005
ECP	NA	Private equity investments in Bank of Africa, EcoBank, and OraBank. Amounts and dates unknown	

5 The Breadth and Depth of Housing and Housing Finance Products

5.1 Banking Sector Overview

Senegal's banking sector is part of the broader UEMOA banking system. Its 25 financial institutions represent 20% of the member countries' combined banking sector assets, second only in market share behind the Ivory Coast (30% of balance sheet, 26 institutions).[24] As of year-end 2016, the largest banks in the WAEMU region are predominantly subsidiaries of French, Moroccan and Pan-African banks:

[24] Finance Ministry web site, Government of France (2017) https://www.tresor.economie.gouv.fr/Ressources/16643_secteur-bancaire-de-luemoa

1. Ecobank (Togo, 8 country subsidiaries, 15% market share);
2. Bank of Africa, subsidiaries de la BMCE (Morocco, 8 subsidiaries, 12%);
3. Banque Atlantique, subsidiary of Banque Populaire (Morocco, 8 subsidiaries, 9,7%);
4. Société Générale (France, 5 subsidiaries, 9,3%);
5. Attijariwafa Ank (Morocco, 8 subsidiaries, 7,9%); and
6. BNP Paribas (France, 4 subsidiaries, 4,8%).

Source: French Treasury Department

Banks make up about 90 percent of the financial system, and the five largest banks account for 66 percent of assets and collect 79 percent of deposits. Domestic credit provided by the banking sector in Senegal represented 43.9 percent of GDP in 2017, very much in line with the Sub-Saharan regional average of 42.3 percent for the same year.[25]

The government has minority stakes (ranging from about 10 to 25 percent of equity) in a number of banks.[26] The interbank market is underdeveloped, with only a limited amount of liquidity traded among banks. There is no deposit insurance scheme, but plans are in the making for one.

5.2 Microfinance

Many microfinance institutions (234 establishments) supply limited financial services targeting lower income households. Although they cover both urban and rural regions, about half of the sector's activity is concentrated in greater Dakar. In 2015, 71 microfinance institutions (MFIs) were listed on the MIX Market (an online directory of microfinance performance data and analysis) with a gross loan portfolio of US$497 million, deposits of US$414 million and 295 606 active borrowers.27 Crédit Mutuel du Senegal (CMS) has the largest loan portfolio (US$203 million and the largest savings (US$243 million).

5.3 Access to Finance

Access to finance has grown considerably in recent years. In 2011, only 6 percent of the population had a bank account. By 2017, the number had grown to 42%. The percentage of the population that keeps savings at a financial institution is low but trending upwards, growing from 4% in 2011 to 7% in 2017. This is low, however, when compared to the sub-Saharan regional average of 15 percent.[28] In 2017, 4 percent of the population had a housing loan, compared to the sub-Saharan average of 5 percent.[29]

5.4 Mortgage Market

Overall mortgage activity in Senegal is nominally low, but high when compared to other WAEMU countries. As table 6 below indicates, nearly 8 000 loans were approved in 2013 in Senegal, and just 15 328 loans were approved in all of WAEMU in the same year. Senegal's share of WAEMU new mortgage issuances is 50 percent, making it the region's most active market in 2013. The figure for mortgages as a percentage of GDP was estimated at 0.86 percent in 2013; it is reasonable to assume that this figure has grown considerably as the economy has been performing well in recent years.[30]

[25] Senegal : financial depth and macro stability Patrick Imam and Christina Kolerus.—Washington, D.C.: International Monetary Fund - World Bank, 2018
[26] Myfinb website, Senegal page (n.d) https://myfinb.com/senegal/
[27] MixMarket, 2015
[28] Findex Global Survey, 2018
[29] Ibid.
[30] HOFINET, 2013

Table 6 Housing loans

Housing Loans in Senegal, 2013	
Number of Housing Loans Approved	7,676
Loans Granted Amount, CFA millions	60,419
Percent Proportion of Loans Approved	50.10%
Percent Amount of Loans Granted	29.70%

The average interest rate, term, and size of a mortgage in 2017 were 6 percent, 15 years, and US$11 804.[31]

Senegal's formal mortgage market is dominated by BHS, which reported a CFA 241 billion (US$432 million) credit portfolio in 2016 and a 16.45 percent growth in new loan issuance. The bank has made considerable inroads into the market; the BHS loan book was reported at US$128 million in 2013, therefore it more than tripled in three years.32 The latest product of the BHS "The Pack 35" is a mortgage loan that allows a potential client to acquire, without down payment, a house valued at less than CFA 35 million (US$63 000) at a rate of interest of 6% for a repayment period of 20-25 years.[33]

Other large players include Société Générale de Banques au Sénégal (SGBS), Banking Company of West Africa (BCAO), and EcoBank. SGBS is the second largest bank in Senegal, with 12.8 percent market share in terms of credits and 15.9 percent market share in terms of deposits.[34] The bank reported 1 985 220 793 long term loans on its 2015 financial statements. SGBS and SICAP (a majority state-owned housing developer working on the Cape Verde peninsula) signed a partnership agreement in 2017 to facilitate the provision and financing of affordable housing. The agreement applies to three of SICAP's developments: SICAP Rue 10, SICAP Lac Rose, and SICAP Grand Mbao. SICAP has priced the houses competitively at CFA 10 500 000 (US$18 640) and SGBS is offering an exclusive mortgage arrangement with interest rates as low as 5.5 percent.[35]

BNDE, or the National Development Bank, is a newly formed bank (established in 2014) that has also garnered attention with its Plan Epargne Logement, or Home Savings Plan. In 2016, 56 percent of its credit book was medium and long-term loans, and 10 percent of its loans were used for building, public works, and real estate.[36] BNDE's CFA 11 billion ($19 million) capital base includes equity investments from the State of Senegal (25 percent), BOAD (9 percent), EIB, AfDB, Bridge Group West Africa, NMA Sanders, and AXA Insurance.[37] It has been performing well, reporting a net profit of CFA 1 594 million (US$2.8 million) in 2017, more than five times the result of the previous year.[38]

5.5 Cooperatives

Senegal was the first among the WAEMU countries to implement a housing cooperative project. The project was financed by the government of Senegal and to this day Senegal remains a pioneer in housing cooperative systems in West Africa.

Building and housing co-operatives are a significant contributor to the housing stock: they now account for approximately 25% of all social housing in Senegal. As of 2012, Senegal was home to 744 certified co-operatives

[31] CAHF, 2017 Yearbook
[32] HOFINET, 2016
[33] Kande, A. Le Soleil online (2016). Nouveau produit bancaire : La Bhs met en place le « Pack 35 » pour le financement des logements sociaux http://www.lesoleil.sn/2016-03-22-23-21-32/item/46504-nouveau-produit-bancaire--la-bhs-met-en-place-le-l-pack-35-r-pour-le-financement-des-logements-sociaux.html
[34] Societe General, 2015 annual report
[35] https://afrique.societegenerale.com/fr/actualites/actualites/news-details/news/sgbs-improving-access-housing-senegal/
[36] BNDE annual report (2016)
[37] BNDE 2016 annual report and http://www.jeuneafrique.com/17001/economie/s-n-gal-la-bnde-d-croche-son-agr-ment/
[38] Financial Afrik (2018). Senegal: BNDE quintuple its profit https://en.financialafrik.com/2018/04/27/senegal-bnde-quintuple-its-profit/

for a total of 74 400 units and 100 000 members.[39] Housing cooperatives are represented by the National Union of Housing Cooperatives (UNACOOP-Habitat).

BHS has established an innovative and successful scheme based on an integrated tripartite partnership between housing cooperatives, developers, and BHS. Member savings are deposited at BHS, in return for preferred-rate loans (7 percent compared with 8–10 percent at commercial banks and up to 14 percent at MFIs). The BHS prequalifies cooperative members for future loans and helps arrange "wholesale" agreements between the cooperatives and land or housing developers, including price discounts. BHS offers loans for the purchase or construction of new units, as well as for the purchase of the land by the cooperatives, the repayment being secured by the accumulated savings of cooperative members. In order to encourage this partnership, the government provides the cooperatives with (1) free land as well as priority access to land developments based on public-private partnerships, (2) annual tax exemptions on profits, and (3) a reduction in registration charges for land plots (1 percent instead of 10 percent).[40] The Housing cooperatives are responsible for the cost of lot servicing.

Housing cooperatives and social housing developers also benefit from special tax treatment. They pay a value added tax rate of 10 percent, as compared with the standard rate of 20 percent. Other tax breaks include a 5 percent tax rate for affordable housing developers and 1 percent for housing cooperatives, whereas the standard construction tax is 15 percent.[41]

5.6 Housing Production

Private Sector Provision

Senegal has a developed residential property market, with approximately 10 000 new units built annually.[42] There is a noticeable lack of low income housing, however, as developers have concentrated on the top end of the market due to better margins, high land prices, and lack of scale. Since 2012, several developers have attempted more affordable products below $45 000 per unit, but the quantities remain low and the quality poor.

Dakar in particular has been experiencing a property boom in the past decade. Luxury villas, hotels and shopping centers have sprung up in the country in recent years, more particularly in Dakar's coast. From 1994 and 2010, Dakar property prices surged by about 256%, according to Senegal National Statistics Agency. According to a Knight Frank report published in 2015, a four-bedroom executive house in a prime location rents for about US$4 000 a month and has an 8% yield.[43]

Dakar's property market is a favored investment destination in the region because Senegal is a relatively stable economy. Regional buyers, such as wealthy Nigerians, are also investing in the country's high-end market.

Public Sector Provision

As previously discussed, Senegal launched an ambitious economic growth plan, the PSE, in 2014. Public infrastructure investment as a percentage of GDP has increased annually since, growing from 11.3 percent in 2015 to 12.0 percent in 2016.[44] In terms of financial reporting, housing forms part of the building and public works sector, which represented 10.8 percent of GDP in 2016.[45]

Recognizing the need to involve the private sector, improved Public Private Partnership (PPP) legislation was passed in 2015. The country's monumental Dakar-Diamniadio toll road project was constructed under a partnership with the Eiffage Group and has been heralded as a prime example of a successful African PPP. The overall budget was US$267 million, and it opened on time and in budget in 2013. The project benefited from

[39] housinginternational.org
[40] El-hadj M. Bah et al. Palgrave Macmillan (2018) Housing Dynamics in Africa
[41] Ibid
[42] CAHF Yearbook, 2017
[43] Knight Frank Africa Report, 2015
[44] BCEAO 2016 annual report
[45] Ndiaye, O. Rewmi.com Actualites (n.d.) Habitat et Emergence au Sénégal. http://www.rewmi.com/habitat-et-emergence-au-senegal-par-dr-omar-ndiaye.html

the strong involvement of DFIs in both public and private financing.[46] One of the State's flagship projects is to build the new city of Diamidino, profiled below.

Case Study: Diamniadio

The new city of Diamniadio is a key feature of the PSE. The project is located about 30km from Dakar, close to the new airport which opened in 2017, and connected to Dakar by a new highway. One of the goals is to ease population pressure on Dakar, and to provide a special economic zone for the country. Diamniadio covers an area of 1 644ha and the government projects that it will eventually be home to 300 000 people.

The overall budget is estimated at US$2 billion and it is expected to take at least 10 years to complete, in various phases. Facilities within the project's grounds include 680 000m^2 of office space, 560 000m^2 of residential area, 160 000m^2 of retail and 50 000m^2 of five-star hotels.[1] Approximately 40 000 units of social housing are included in the master plan.

The Semer Group, a real estate investor with offices in the United Arab Emirates and Senegal, is one of the lead contractors on the project. Several developers are building the affordable housing units, including Getran, Teyliom, Senegindia, and Plasma Immo. BHS is involved in providing mortgage finance for the affordable units.

As of November 2017, the project was 80 percent complete.

6 Challenges and Opportunities

Senegal has a reputation for being one of Africa's most politically stable countries, enjoying one of the continent's fastest economic growth rates and having a government that says it is committed to improving the business climate and cutting red tape. As such, the country is trying to position itself as a regional economic hub. Inflows of foreign direct investment increased from $276 million in 2012 to $532 million in 2017.[47]

The PSE and its flagship new cities offer many investment opportunities for both local and foreign investors. The fact that the CFA is pegged to the Euro means that WAEMU benefits from low exchange rate and transfer risk, making Senegal a more attractive investment for foreign investors.

Specific to the housing space, the country's participation in the West African regional mortgage refinance company (CRRH-UEMOA) will provide necessary long-term capital, and hopefully promote the ongoing supply of housing. Like many African countries, Senegal faces a large housing shortage. Unlike many African countries, however, its housing market is supported by sound economic and monetary policy, as well as specialized institutions like BHS. Affordability will remain an issue in the short term, but as the real estate sector deepens, it is likely that developers will begin to move down-market and focus on delivering housing to low to middle income households.

[46] Carter, L. World Bank (2015)Blog - Five secrets of success of Sub-Saharan Africa's first road PPP http://blogs.worldbank.org/ppps/five-secrets-success-sub-saharan-africa-s-first-road-ppp
[47] Munshi, N. Financial Times (2018). Reputation for stability lures new foreign investors to Senegal https://www.ft.com/content/c9df68b6-2ea6-11e8-97ec-4bd3494d5f14