Centre for Affordable Housing Finance in Africa

Housing Investment Landscapes

Guinea

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1 Country background

Following a largely peaceful presidential election in October 2015 and the end of the Ebola outbreak, Guinea is once again on a positive trajectory, with a 4.9 percent GDP growth in 2016 driven by strong mining and agricultural sectors. Although housing was defined as a national priority, few investments have been made so far in the sector and housing finance remains significantly underdeveloped compared to other West African countries. Mortgages account for 0.4 percent of overall bank loans. Households cannot access mortgage finance because of their exceptionally low and informal income. Therefore, most of the housing stock is self-built and self-financed.

Despite the current low investments in the housing and housing finance sectors, Guinea receives concessionary lending from global development finance institutions (DFIs) such as the World Bank Agence Française de Développement *(AFD)* and the African Development Bank *(AfDB)* for infrastructure and mining projects but also for projects aiming to improve the financial sector and expand lending to small and medium enterprises *(SMEs*). Foreign and local private investors have also started entering the Guinean housing market but are focusing on developing luxury residential real estate.

2 Profiles of investors

Since the end of the Ebola crisis, Guinea's economic situation has gradually improved, and investments have started to enter in the market. There are both local and foreign institutional investors in Guinea, although investment by local actors remains extremely limited in the housing sector.

2.1 Local institutional investors

Capital markets

The Central Bank (CBRG) issues Treasury Bills and *Titres de Régulation Monétaire* (TRM). CBRG's Treasury bills have high rates and short terms (180 days on average).[1] There is no stock exchange in Guinea. The country also has no active corporate debt market, secondary market or derivatives market. The opening of a stock exchange was announced in 2013, before the country was hit by Ebola,[2] to enable the growth of new mining prospects. The African Development Bank (AfDB) launched a project to support the modernisation of the Guinean financial sector in 2017. This project included opening a stock exchange, but nothing has happened yet.

Insurance market

Guinea has six insurance companies. They currently do not invest in housing in the country, though they have been engaged in other forms of more profitable real estate. UGAR is the largest insurance company in Guinea and is part of the Activa Group. The company has so far only invested in commercial real estate for rental. Their most profitable investment remains treasury bills. Though they have not expressed interest in funding construction or mortgages, insurance companies may be

[1] Banque Centrale de la République de Guinée (BCRG) (2013), Rapport annuel d'activités de la direction de la supervision bancaire.

[2] Jacks, M. Venturesafrica.com (2013). Guinea to Unveil Stock Exchange in 2 Years. http://venturesafrica.com/guinea-to-unveil-stock-exchange-in-2-years/

interested in bulk-offtake and renting housing units. The Caisse Nationale de Sécurité Sociale (CNSS) is the pension fund for civil servants. There is no evidence that the CNSS currently invests in housing.

Government investment

The Government of Guinea is currently not a major investor in the housing sector. The government has written a sound housing strategy but it was never implemented. Appropriate governmental implementing agencies and structures exist and a housing fund, Fonds de l'Habitat, was created. It is not operational, partly because no mechanism for allocating resources was established.

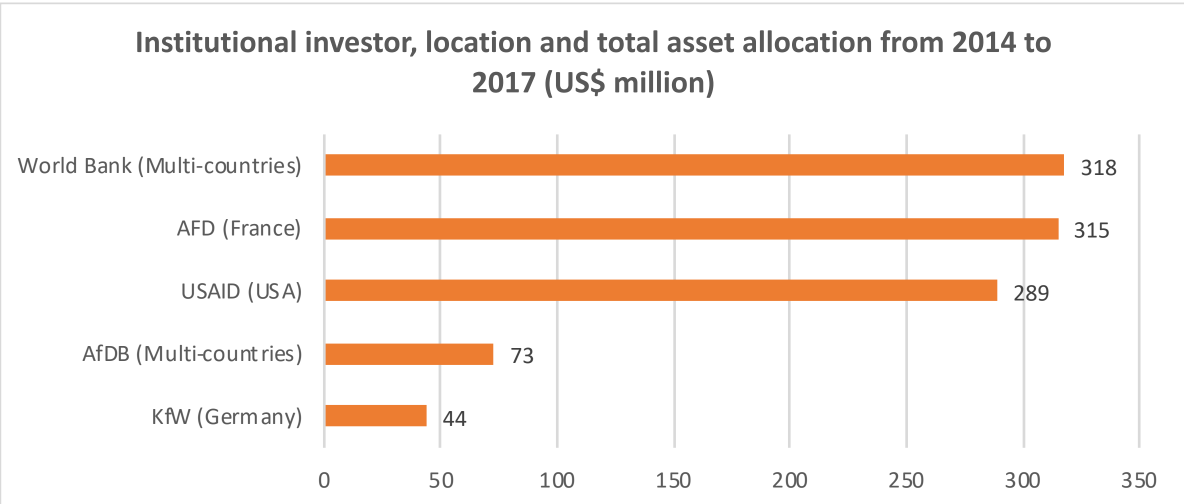
A Chinese group, PowerChina, is partnering with the National Agency for Planning and Housing Development (SONAPI) to develop affordable housing of 5 000 units in Kansonyah, 45km from the Conakry CBD, for US$300 million, as the first phase of a larger project. The project includes the creation of infrastructure such as roads, schools, stadiums, mosques, and police stations but no infrastructure is in place and the project has not started. In addition to these housing development projects, Guinea has secured a 20-year US$20 billion loan from China for financing the construction of national infrastructure such as roads and ports in exchange for mining concessions.

2.2 Foreign institutional investors

Development Finance Institution investment

Most DFI investments flow into Guinea's infrastructure and mining sectors. The IFC has invested US$200 million in bauxite mining projects and in one of Guinea's largest mining companies, CBG, to support growth, create jobs and modernise the country's transport infrastructure. International donors have also supported the recent reforms to the country's financial sector, particularly for the creation and expansion of SMEs. The World Bank Group and AFD are Guinea's main donors with respectively US$318 million and US$315 million engaged in multi-sectoral programmes between 2014 and 2017. USAID follows closely with US$289 million while the African Development Bank (AfDB) has invested US$73 million.

Figure 1 Institutional investor location and allocation



Source: Institutional investors annual reports (2014-2018)

In 2017, during a forum in Paris, DFIs promised US$20 billion to fund Guinea's National Development Plan 2016-2020.[3] The Islamic Development Bank and the Arab Coordination Group announced financing of US$1.4 billion, while the World Bank Group, the AfDB and the European Union pledged US$1.6 billion, US$725 million and US$500 million respectively. Private investors have announced more than US$7 billion, including through public-private partnerships.

DFI investment in finance and housing

Almost no investments directly target the affordable housing and housing finance sectors in Guinea but investments in the financial sector and in SMEs have indirectly financed the housing sector since many SMEs are related to the construction sector.

Though there are no guarantee funds for housing, DFIs have created credit guarantees targeted at small and medium enterprises. The two guarantee funds currently active are presented below.

Guarantee ARIZ (AFD)

ARIZ guarantees loans to micro, small and medium enterprises (MSMEs) and microfinance institutions (MFIs). The maximum amount guaranteed is €2 million per transaction and €4 million per company or group. This system has been operational in Guinea since 2009, and now operates with the Banque Internationale pour le Commerce et l'Industrie de la Guinée (BICIGUI), a subsidiary of the BNP Paribas Group, the Société Générale des Banques de Guinée (SGBG), a subsidiary of the Société Générale Group, and is now open to the main Guinean banks. The ARIZ guarantee encourages banks to lend to riskier projects and to small and newly created enterprises. In 2016, €11 million in guarantees was outstanding and no defaults on loans had been reported.[4]

Development Credit Authority (USAID)

The DCA program is a partnership between the USAID and Ecobank. It guarantees up to 50 percent of loans to SMEs.

Private equity

Most investments in the housing and housing finance sectors in Guinea are made by private companies. Large employers in Guinea such as Compagnie des Bauxites de Guinée (CBG), Total, and Orange have stepped up initiatives to provide affordable and decent housing to their employees,[5] either through the direct provision of houses or through private financing and savings programmes. For private financing and savings programmes they use their own funds. Some such as CBG or Total already work with commercial banks in financing construction of houses (for example in subsidising interest rates). CBG has created a US$1.8 million liquidity fund to provide mortgages to their workers. The fund is managed by BICIGUI. This fund has enabled BICIGUI to provide preferential mortgage rates to CBG's workers.

Foreign companies are also increasingly active in the sector. American HomeBuilders West Africa (AHWA) is a small real estate company from the USA that builds houses in Guinea for the Guinean

[3] Fualdes, N. Jeune Afrique (2017). Guinée : le Plan national de développement économique et social largement financé. http://www.jeuneafrique.com/493808/economie/493808guinee-plan-largement-finance/
[4] Ribbink, G and van Melle, C, Triple Jump (2017). Guinea, Key Challenges for the Missing Middle.
[5] Information collected during interviews with large employers.

diaspora and their families. Through its exclusive partner US-Africa Housing Finance (USAHF), AHWA offers buyer-financing to their clients through private foreign investors. AHWA has already started expanding to neighbouring countries.

Chinese investors have recently entered the Guinean markets with large projects, particularly in the housing sector. They mainly target the high-end segment of the population. In 2015, one initiative to bridge the mortgage gap received national media attention: a partnership between China Dreal Group (CDG) and FiBank Guinée to develop luxury real estate in Conakry (Plaza Diamant). CGD created a real estate loan foundation to support households willing to acquire the up-market houses. CGD funded it with US$25 million of borrowing capacity at a below-market rate of 2 percent, with a repayment tenor of up to 30 years. However, only a few villas have been sold so far and no information is publicly available on the number of mortgages that were actually contracted. The houses themselves are far out of reach of most of the population with prices starting at US$600 000. China Dreal Group has also been awarded a large contract by the Guinean government to build affordable housing in Conakry, though little is known about the progress of the deal.

3 Investment processes

A private investment promotion agency was set up in Conakry along with a one-stop shop for registering new companies, which has been in operation since 2011. Guinea's investment promotion agency (APIP), similar to agencies in other Sub-Saharan African countries, is responsible for promoting foreign direct investment into the country. APIP is investors' first point of contact when they arrive in Guinea. They receive help with creating and registering their businesses, accessing advantages offered under the investment code, and finding information and resources. In 2016, APIP rolled out a new website (www.invest.gov.gn), detailing information on existing projects and opportunities in each sector. Opportunities in the housing sector are presented in the "construction and real estate" category.

Foreign investors in Guinea may not own media; beyond that, foreigners may own any type of business or property and may in fact own 100 percent of any company or industry except mining. No minimum capital has to be invested regardless of the type of company created. Under Article 17 of the Guinean Investment Code, foreign investors have a broad right to expatriate capital and earnings, without prior approval and without additional taxes, provided all domestic taxes on the earnings were previously paid.

4 Investment activity in housing

4.1 Top performing investment tools

Institutional investors have not made direct investments into Guinea's housing and housing finance sectors yet, let alone into affordable housing. Unlike other West African countries, DFIs haven't made major loans or given lines of credit to banking institutions and MFIs for the expansion of their financial products. Nevertheless, DFIs have used subsidies to support the financial sector, the microfinance sector and to increase financial inclusion for the most vulnerable, which directly affects the borrowing capacity of the population.

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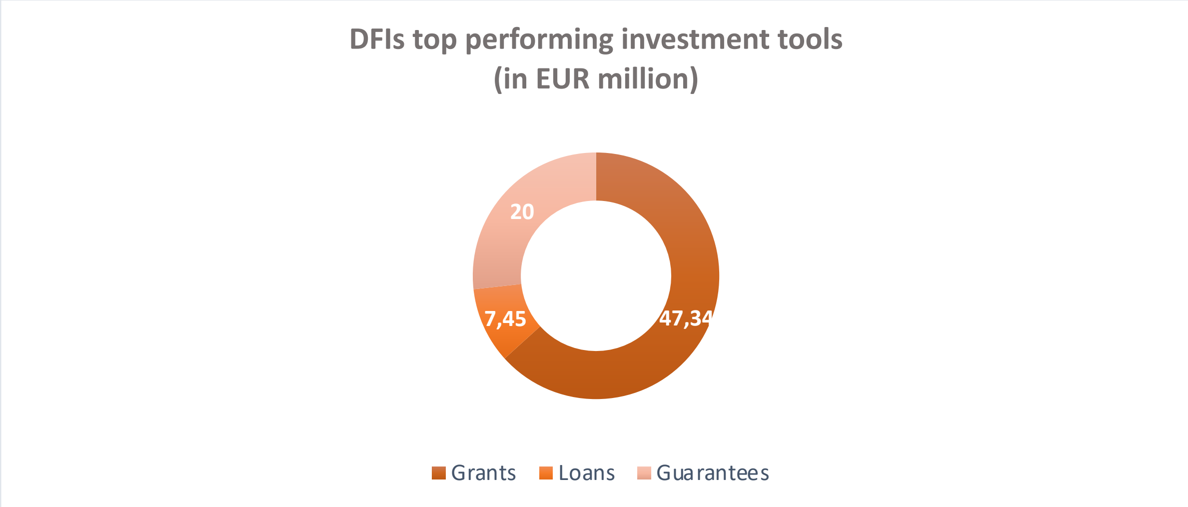
Figure 2 Top DFI investment tools



Source: Author's own compilation, , derived from the investor tracker

Guarantees are another major instrument used to indirectly finance the housing and housing finance sectors: the ARIZ guarantee (US$20 million) from AFD and the DCA program (US$26 million) from the USAID guarantee loans from commercial banks to SMEs. SMEs in Guinea are concentrated in the health, education, mining and infrastructure sectors but also in the construction and real estate sectors.

4.2 Investment portfolio

Table 1 shows the investment portfolio, activity, horizon and timelines committed by institutional investors in Guinea's housing and housing finance sectors.

Table 1 Institutional investor activity in Guinea's housing sectors

Name of investor	Allocation to housing (million US$)	Investment activity	Year of investment
AfDB	3.36	Grant to support the modernization of the financial sector	2017
AfDB	7.45	Loan to finance the third phase of the economic and financial reform support program (PAREF III)	2016
AfDB	7.28	Grant to finance the third phase of the economic and financial reform support program (PAREF III)	2016
AFD	20	Guarantee program (ARIZ) to support lending to SMEs	2009
The World Bank	10	Grant to improve the investment climate, access to credit and support the development of MSMEs	2013
IFC	n/a	Loan to promote leasing for the development of SMEs	2013
USAID	26	Guarantee program (Development Credit Authority) to improve access to finance for SMEs	2012
First initiative	0.5	Grant to strengthen the microfinance sector and financial inclusion in Guinea	2015

Name of investor	Allocation to housing (million US$)	Investment activity	Year of investment
First initiative	0.2	Grant to promote the creation of a leasing law	2007
USAHF	n/a	Home financing for Guinean diaspora	2014
China Dreal Group real estate loan foundation	25	Home financing for high-income Guineans	n/a
Compagnie des Bauxites de Guinée (CBG)	1.8	Housing Assistance Fund to provide liquidity for employees' mortgages	n/a

5 Impact of investment on Guinea's housing and particularly affordable housing industry

5.1 Breadth and depth of housing and housing finance products

Access to mortgage finance

Few households have access to formal banking services in Guinea. As of 2014, only 7 percent of Guinean adults were formally banked, and less than 1 percent had an outstanding mortgage. Banks rely on their deposits for financing mortgages, as long-term liquidity is scarce. a "ratio de transformation".[6] According to local banks, prudential regulations in Guinea has set a 60% ratio between long term assets and long term liabilities, thus further limiting the capacity to use deposits for long-term finance. As of December 2017, the total outstanding long-term mortgage volume in Guinea was a little under US$26 million. The mortgage to GDP ratio is around 0.4 percent.[7]

Table 2 Outstanding housing loans

Outstanding housing loans (in thousands of US$)	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Dec-17
Short term (under 5 years)	$960	$4 691	$1 989	$5 853	$5 540	$4 691	$4 577
Long term (over 5 years)	$2 411	$22 891	$4 586	$5 923	$33 777	$22 891	$26 963

Source: BCRG, 2018.

Commercial banks in Guinea exclusively lend to their own employees (where they know the employment history and can deduct payments at source), or to employees of large multinationals (where again, deduction at source can be arranged). Weak land tenure and lengthy judicial processes make foreclosure difficult and banks limit their risk exposure by offering mortgages only to individuals backed by their companies. Even when the home is taken as security, loan-to-value is a secondary consideration to income level and income security; for non-bank employees of large companies, terms are 5-12-year tenor, with a 15 to 20 percent interest rate; for employees of the lending bank itself,

[6] Interview with BCRG.
[7] BCRG (2018).

loans are a maximum of US$90 000, a loan tenor 15 years, and interest rates of 2 to 5 percent.

Key players and market size

Guinea has 13 banks with total assets of US$1.4 billion and 18 MFIs with total assets of US$50 million. By comparison, Côte d'Ivoire, with a population nearly twice the size and GDP five to six times that of Guinea, has 24 commercial banks with total assets of about US$12 billion and 72 MFIs with assets of US$250 million. In Guinea, the three major banks (Ecobank, BICIGUI and SGBG) have 60 percent of the total assets. Few banks operate outside the capital Conakry.[8] Though most of the banks have indicated little interest in supporting housing, some have recently developed mortgage products aimed at the middle-class, civil servants and formally employed personnel of large companies.[9] By law, banks cannot issue loans in US dollars.

Currently, the main banks offering mortgages in Guinea are BICIGUI and Orabank. BICIGUI offers several types of housing finance products: (i) Regular mortgages of up to 12 years and (ii) Promesse d'hypotheque[10] called "ImmoSept" of up to 7 years at 13 percent, which targets civil servants. BICIGUI also has a US$1.8 million liquidity fund from CBG, a large mining company, to provide mortgages to their workers. This fund has enabled BICIGUI to provide preferential mortgage rates to CBG's workers. Orabank has just started a mass expansion of its mortgage operation and hopes to issue 100 new mortgages by the end of the year. The term of its product is up to 12 years at 12.5 percent fixed. The bank's progress in rolling out this new product should be carefully followed and the bank should be encouraged to team up with professional developers. Unlike Senegal and Côte d'Ivoire, which are supported by the Caisse Régionale de Refinancement Hypothécaire (CRRH), Guinean banks rely almost exclusively on short-term deposits. Therefore, despite their efforts to offer new financial products, they lack term-matched capital to increase their mortgage portfolio.

Savings schemes: in terms of building up effective and financeable demand, only one commercial bank offers a homeownership savings scheme, BICIGUI's Plan Épargne Logement.

Microfinance

Housing microfinance in Guinea is underdeveloped with a 7 percent penetration rate,[11] but the sector is growing with the arrival of new players on the market. Currently 18 microfinance institutions are active in Guinea, mainly focused on lending to micro-entrepreneurs. According to BCRG, in 2011 loans outstanding for all 13 MFIs were GNF 104 billion (approximately US$11,5 million) while savings amounted to GNF 76 billion (approximately US$8,4 million).[12] MFIs were active all over the country, with some concentration in Conakry. MFI activity benefited 290 000 clients, most of whom were engaged in agricultural activities and were based in rural areas. Crédit Rural de Guinée (CRG) is the largest microfinance institution in Guinea, with a market share of over 50 percent, and specialises in loans for agricultural income-generating activities. However, it grants some home improvement loans to its oldest clients only, mostly in rural areas. Housing-related loans[13] are less than 3 percent of its loan portfolio. Since the Ebola outbreak, CRG has had more deposits at GNF 130 billion (US$14,39

[8] BCRG (2013).
[9] Interviews with banks.
[10] The Promesse d'hypotheque is not exactly a mortgage but a contract, under which the bank keeps the land title until the household has paid in full. The mortgage itself is thus bypassed, which lowers legal fees considerably.
[11] Interview with Crédit Rural de Guinée (CRG), April 2018.
[12] At an exchange rate of $1 = 9 031,95 Guinean Franc, on 5 October 2018.
[13] Consumer loans used for housing improvements.

million)[14] than loans. Liquidity is therefore not an issue for CRG now but long-term liquidity is, representing a barrier to the development of its housing loans.[15]

Housing production

Homeowners themselves build most of the housing stock. Foreign developers have expressed significant interest in entering the sector and some have signed agreements with various government entities including Turkish, South African and Chinese companies. There has been much talk but few projects have come to fruition. This is probably due to the foreign developers' low appetite for risk as the government cannot offer offtake guarantees and the size of the financeable demand is limited. Without interventions on the demand side, the interest of foreign developers may stop at the feasibility level. Despite these challenges, a few professional local and international developers are active in the market.

The Ministry of Housing created the Société Nationale d'Aménagement et de Promotion Immobilière (SONAPI) in 2008 to develop state-owned land and promote affordable housing. More than 15,000ha of land was transferred to the SONAPI but the agency only began developing social housing projects in 2015. SONAPI has ambitious plans, on-going social housing projects but no finished projects to its credit. SONAPI is partnering with a Chinese group to develop 5 000 units for US$300 million, as the first phase of a larger project. Simultaneously, SONAPI is developing 314 affordable units in Keitaya, which is 35km from Kaloum. SONAPI has finished the foundations but is seeking financial investment to complete the development. Foreign investors are also active but not yet in the affordable housing sector. American HomeBuilders West Africa is building a small number of villas for the diaspora while Douja Promotion, a Moroccan developer, is developing apartment buildings for high-income Guineans.

6 Investment challenges and opportunities to improve the investment landscape

As shown by CAHF studies among others, there is a massive demand-supply gap in Guinea: levels of income are extremely low (around US$2 000 a year for a civil servant) and most of the population cannot access housing finance, whereas the cheapest newly constructed formal homes available in the market cost US$40 000.

Although foreign private developers are taking keener interest in investing in the affordable housing sector, they cannot build houses for the local population and build almost exclusively for high-income Guineans and the diaspora because Guinean laws prohibit financing a house in US dollars and the currency risk is too high.

Banks and MFIs are also increasingly interested in housing finance products: residential mortgages account for less than 1 percent of all loans outstanding and have short tenor. The lack of long-term finance, however, hinders the development of their mortgage portfolios. Unlike the WAEMU countries, Guinean banks do not have access to secondary market liquidity and can only rely on short-term deposits. COFINA is the only microfinance institution in Guinea offering loans directly for housing. COFINA is a meso-finance company registered as an MFI. COFINA partnered with a real estate company and bought a large portion of land in the greater Conakry area to develop a site-and-service

[14] Interview with CRG (April 2018.

[15] Ibid.

project. Their “Leidi” product offers clients money to buy a 500m^2 lot combined with money to build a fence and begin basic groundwork. The product costs GNF 50 million (US$5 500) and is offered to salaried employees and business owners. COFINA targets individuals earning between GNF 5 to 10 million (US$554 to 1 107) a month. The loan has a two-year tenor with a 2-2.5 percent monthly interest rate. COFINA keeps the land title until the loan has been fully paid back. The product has been popular and over 450 lots have already been sold. With access to long-term finance, COFINA could develop a full real estate project.

Large employers and insurance companies could also invest in housing. Many large employers are already helping their employees to access housing, either directly providing houses or in the form of credit subsidies or guarantees. Insurance companies, too, could participate through bulk-offtake and renting housing units to diversify their sources of revenue.

Mobilising public resources represents another key challenge for the housing investment landscape. Though the 2015 National Housing Strategy was voted into law, its implementing decree has not yet been adopted. Enabling its implementation would provide a pool of resources to be directed towards the development of affordable housing at a national scale. The housing solidarity tax,[16] which equals 1 percent of the total payroll of both public and private sector employers, is one of these potential resources to tap into. The Housing and Construction Code also provides for a mortgage guarantee fund for low-income borrowers (Fonds de Garantie Hypothécaire, FGH), similar to the FOGARIM guarantee in Morocco, but its implementation is also waiting for a presidential decree.

[16] Article 128 of the Housing and Construction Code