

SENEGAL, BOND ISSUE OF THE CITY OF DAKAR
CREDIT RATING REPORT

January 2015

Category of value	Rating scale	Currency	Current rating	Previous rating	Outlook
Long-term	Regional	CFA	A	n/a	Stable
Short term	Regional	CFA	A1	n/a	Stable

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Basic information
Provisional loan amortization plan (in million CFA francs)

Year	Outstandings at start of period	Capital amortization	Interest	Annuities
2014	20 000	0	660	660
2015	20 000	0	1 320	1 320
2016	20 000	2 000	1 320	3 320
2017	18 000	4 000	1 122	5 122
2018	14 000	4 000	858	4 858
2019	10 000	4 000	594	4 594
2020	6 000	4 000	330	4 330
2021	2 000	2 000	66	2 066
Total		20 000	6 270	26 270

Summary presentation of the operation

The city of Dakar is making a bond issue on the regional financial market of the Regional Stock Exchange (BRVM).

The CFA 20 billion bond issue will help to mobilize the capital necessary to the construction of the Felix Eboué shopping center on the PETERSEN site in the center of Dakar (municipality of Dakar Plateau).

The envisaged CFA 20 billion bond issue will be made at an annual interest rate of 6.6 %.

Thus, CFA 2,000,000 of securities will be issued at a nominal value of CFA 10,000 each.

The maturity of the loan is 7 years, with a two-year period of grace on the repayment of the capital.

The City of Dakar will therefore repay only the loan interests during the first two years.

The purpose is to enable the City of Dakar to carry out its project and to achieve sufficient

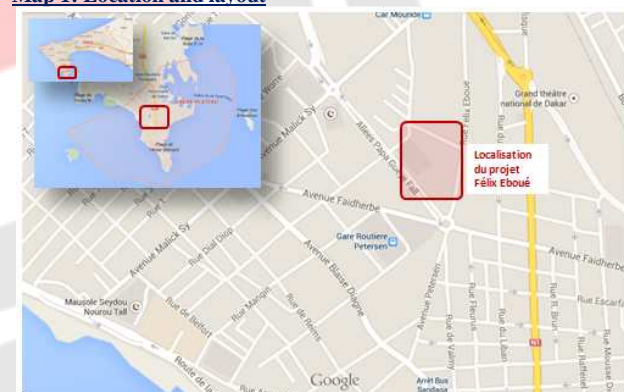
profitability in order to meet its financial commitments associated with the Felix Eboué project.

The loan is secured at 50% by USAID (United States Agency for International Development).

Repayment is made on a half-yearly basis.

The Felix Eboué project, entirely financed by the loan, involves the construction of a six-storey commercial building with a surface area of more than one hectare.

The shopping center will host 4,241 canteens of various types, 352 parking spaces and 14 underground storage boxes.

Map 1: Location and layout


Source: City of Dakar and Bloomfield Investment Corporation

Justification of the rating
▪ The shopping center, a timely project

The construction of the shopping center envisaged by the City of Dakar is likely to strengthen its economic dynamism, to improve

its own revenues and to contribute to the improvement of the populations living environment.

- **A significant financial risk to be covered for the project**

The main risk to this project is that certain merchants operating in the informal sector (and therefore having no access to bank financing) might not be able to acquire commercial spaces (canteen).

Consequently, we believe that the supporting measures under negotiation with financial institutions must absolutely be conclusive to ensure the success of the project.

- **Delay in the establishment of project management**

Since the City of Dakar has not yet started the contracting process (to be done in accordance with the Public Contracting Code) the main stakeholders (designers and contractor) in the effective implementation of the construction project have not yet been designated.

This situation is likely to undermine the completion of the project within a period of two years, but this will not affect the repayment of the loan, given the repayment capacity of the City of Dakar and the guarantee obtained from USAID.

- **Financial projections**

Financial projections have been designed in a consistent manner.

Nevertheless, and without questioning the necessity and the timeliness of the project, we do not have enough data to assess the assumptions used in the financial projections.

- **City of Dakar rated in the Investment category**

The City of Dakar is rated by Bloomfield Investment Corporation in the Investment category, in local currency (CFA) since its first regional rating in 2013.

In 2014 the City of Dakar was rated BBB+ in the long-term and A3 in the short-term with a stable outlook for the two ratings.

This rating confers to the City of Dakar a good credit quality, thus enabling them to meet financial obligations with a relatively low risk of default.

The City's credit quality reinforces the credibility of the debenture loan.

- **The USAID guarantee reinforces the credit quality of the operation**

The US Agency for International Development offers a first demand guarantee of 50% on the principal of the bond issue.

This USAID guarantee considerably reduces the risk of loss to bondholders.

The agreement entered between USAID and the City of Dakar secures payments on due date and helps to quickly respond to any possible failure of the city (although such situation is very unlikely to occur, given the City's credit quality).

The conditions imposed on the City of Dakar are not likely to slow down or to block the guarantee mechanism in case of failure.

- **Management of the shopping center is entrusted to a dedicated company and the envisaged mode of management secures the capital flows intended for the repayment of the loan**

The commercial and financial management of the Felix Eboue shopping center is entrusted to a semi-public company (the City of Dakar being the majority shareholder).

This use of a dedicated company helps to ensure effective and proactive management and to separate the financial management of the target project from that of the City of Dakar.

With this method, capital flows generated by the project are managed in an optimal manner, thus securing the repayment of the loan (from the management company to the Central Depository / Settlement Bank of the Regional Stock Exchange).

- **Good strategic position in a competitive environment**

The Felix Eboue project is a strategic project that enables the City to recover its public space.

It is in line with a new regulation prohibiting the occupation of public space for commercial purposes.

Felix Eboue will be the first shopping center in this category located in the center of the municipality of Dakar Plateau.

This makes the shopping center more attractive to merchants and it appears as an alternative to the occupation of public space by enabling the continuation of their business.

- **The City's financial strength is potentially enhanced by Act III of decentralization**

The new regulation on local governments, which became effective in 2014 in Senegal, is likely to enhance the financial strength of the City of Dakar.

Indeed, the upgrading of previous county boroughs into full-function municipalities and the redistribution of transferred skills between the City and the municipalities considerably reduces the expenditure of the City of Dakar.

Financial projections suggest a high financial flexibility.

However, the implementation of the Act III of decentralization remains difficult.

- **Economic and financial modeling of the project is optimistic with regard to the cultural obstacle of markets in two-storey buildings**

The financial model of the Felix Eboue project is based on the commercial assumption of 100% occupation of the entire shopping center (not including parking space) as from the 6th year after the start of work (i.e. 4 years of activity).

However, according to the studies conducted by the Cabinet d'Expertise, de Gestion et de Promotion Immobiliere (CEGEPI), the average rate of occupation of existing shopping centers (in the target area of the study) is 85% for the ground floor and 37% upstairs.

The assumption of 100% occupation rate for the four floors of Felix Eboue seems too optimistic, even though the specialization of the floors (by type of activity) planned by the City of Dakar and the regulation prohibiting the occupation of public space by merchants may increase the attractiveness of floors for shopping centers.

The relationship between the City of Dakar and the representatives of merchants are also likely to enhance the penetration rate of the shopping center.

- **Risk associated with administrative procedures**

Administrative procedures necessary to the implementation of the Felix Eboue project could slow down the project and undermine the repayment of the capital based solely on the revenues of the project.

Indeed, the City anticipates that the work will be completed and operations will begin during the period of grace; therefore the project will contribute to the repayment of loan installments.

Contracting procedures and effective acquisition of the land are two factors that can slow down the commissioning of the shopping center.

- **Gaps between the anticipated annual cash flow and the loan installments to be paid during the first four years**

According to the financial projections of the Felix Eboue project, the provisional cash flow is unable to fully cover the repayment of loan installments during the first four years of operation.

Indeed, the loan installments will be completely absorbed by the profitability of the *Felix Eboue project* only after 4 years of activity.

The gap between the annual cash flow and the debt service is located between CFA 695 million (1st year of activity) and CFA 1.6 billion.

This gap weighs on the financial capacity of the City of Dakar.

However, given the financial projections of the City of Dakar, the weight of the gap can be easily absorbed by the City.

Socio-economic environment of the country

Senegal is one of the eight countries of the West African Economic and Monetary Union (WAEMU¹). It is the second largest economy of the region behind Cote d'Ivoire.

¹ The West African Economic and Monetary Union (WAEMU) includes eight (8) West African countries. The union pursues the objective of economic convergence and monetary integration.

Table no. 1: Evolution of the nominal GDP of the WAEMU zone

Nominal GDP (in billion CFA)	2009	2010	2011	2012	2013	2014*	%
Benin	3 109	3 248	3 442	3 763	4 178	4 544	10%
Burkina Faso	3 938	4 369	4 760	5 546	5 965	6 570	14%
Cote d'Ivoire	10 881	11 352	11 150	12 460	14 126	15 760	32%
Guinea-Bissau(*)	391	423	471	483	480	508	1%
Mali	4 233	4 656	5 012	5 140	5 642	6 168	13%
Niger	2 533	2 809	3 011	3 567	3 663	4 045	8%
Senegal	6 029	6 369	6 817	7 225	7 462	7 947	17%
Togo	1 494	1 581	1 699	1 879	2 127	2 313	5%
WAEMU	32 607	34 808	36 361	40 063	43 644	47 855	100%

Source: Central Bank of West African States

The population of Senegal is 12.9 million inhabitants, according to the estimates of the national statistics and demography agency of Senegal.

Predominantly Muslim, the population is divided into a multiplicity of ethnic groups such as the Diolas, Mandingues, Lebous, Peulhs, Sarakoles, Sereres, Toucouleurs and Wolofs.

French is the official language of the country, but Wolof remains the most spoken language.

The Senegalese population is concentrated around the regions of Dakar (23%), Thies (13.2%) and Diourbel (11%).

The population is predominantly young (in 2011, 42.6% of the population was below 15 years and 63.4% was below 25 years).

Unemployment rate is estimated at 10.2% in 2011 by the National Institute of Statistics (INS).

Unemployment mostly affects females (13.3% compared to 7.7% for men) and is concentrated in urban areas (14.1% in the City of Dakar and 13.9% in other cities).

Young people between 15 and 24 years remain the most affected by unemployment (12.7%).

On the economic level, the global economic crisis that started since 2008 and the fall of the prices of agricultural raw materials during 2008 and 2009 have had a significant impact on the Senegalese economy, but did not block the growth of the country.

Senegal has a relatively low level of growth compared to the WAEMU zone but its growth rate has been increasing since 2011.

Indeed, the country's average growth rate was +2.9% between 2008 and 2012, compared to

+3.7% for WAEMU zone during the same period.

This rapid growth should be confirmed with the expected rise in the country's growth in 2013 (+4%) and 2014 (+4.6%).

Country risk

Socio-political situation

- *Remarkable political stability*

Senegal is among the politically most stable countries in Africa.

Political transitions between Leopold Sedar Senghor (1960), Abdou Diouf (1981), Abdoulaye Wade (2000), and Macky Sall (2012) have been quite smooth.

However, the relatively stable presidential system remains faced with internal challenges.

The tense relationship with the opposition is fueled by ongoing investigations against members of the government of former president WADE.

While the secessionist threat in the Casamance region that persists since 1982 is alleviated since the peace agreements signed between President Abdoulaye Wade and the MFDC² in 2004, it continues to disturb the security environment in southern Senegal.

The instability in the Sahelian zone, following terrorist intrusions in Mali, exposes Senegal to the spread of terrorist movements throughout the region.

However, the country maintains the control over its internal security and has so far shown its resilience to the political upheavals going on in the West African region for many years.

² MFDC: Movement of the Democratic Forces of Casamance. Separatist movement created in 1982 in the Casamance region.

Economic situation

Table 2: Evolution of the actual GDP of the WAEMU zone

Rate in %	2009	2010	2011	2012	2013*
Benin	2.7	2.6	3.5	5.4	5.1
Burkina Faso	3	7.9	5	9	6.8
Cote d'Ivoire	3.8	2.4	-4.7	9.8	9
Guinea-Buissau	3.4	4.7	5.3	-0.9	0.3
Mali	5	5.8	2.7	-1.2	5.1
Niger	-0.7	8.4	2.3	10.8	2.6
Senegal	2.1	4.1	2.6	3.5	3.7
Togo	3.4	4	4.8	5.9	5
WAEMU	2.8	4.5	0.9	6.5	6

*: latest estimate

Source: Central Bank of West African States

The Senegalese economy is in a phase of slowdown over the period from 2009 to 2011, mainly due to difficult climatic conditions in the agricultural area, which contribute to the downturn of the primary sector (- 14.5% in 2011).

The country has achieved a more sustained growth rate during 2012 (3.5 %), driven by the resurgence of the primary sector (+ 9.6 %) as a result of measures taken by the State to achieve recovery through an agricultural subsidy program during the crop year 2011-2012.

- *Growth prospects in a difficult global economic context*

Despite the difficult international economic context, Senegal has been achieving rapid growth since 2011.

With a GDP growth rate of 3.5% in 2012, compared to 2.6% in 2011, the country confirms its capacity of resilience to exogenous factors.

This trend is confirmed by the estimated growth rate of 3.7 %, announced by the BCEAO in 2013.

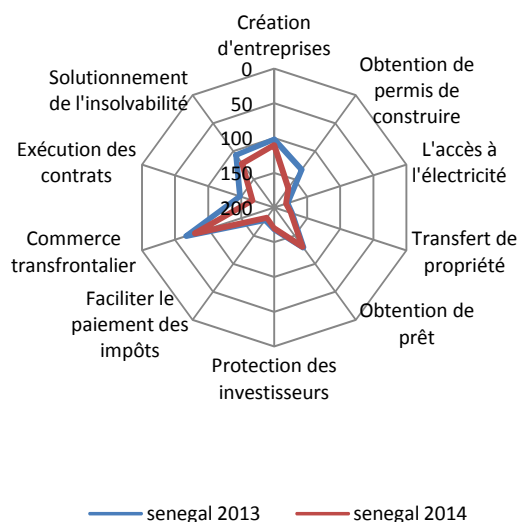
Senegal's growth rate remains however below that of the WAEMU zone, with an estimated 6% in 2013 (mainly influenced by positive growth prospects in Cote d'Ivoire).

Senegal has declined twelve places in the *Doing Business report for 2014*, holding the 178th rank (vs. 166th in the *Doing Business report for 2013*).

This poor performance is explained by the decline in all its criteria.

The most affected criteria are "Dealing with construction permits" and the "Resolving insolvency" where the country has lost almost 32 spaces.

Graph 1: Senegal's position in the Doing Business report in 2013 and 2014



Source: Doing business 2013 and 2014

Public finance

- *A relatively high but controlled public deficit*

With growing revenues and control of expenses in 2012, the Senegalese State has reversed the upward trend of the public deficit, from 6.7% in 2011 to 5.8% in 2012.

In 2012, Senegal covered 50% of the deficit through a bond issue.

Between 2010 and 2011, the coverage of the deficit through bond issues has risen from 2% to 40%.

This clearly illustrates the degree of the stakeholders' trust in country's credit quality.

- *the financial health of the entities in the power sector remains a risk that needs to be covered by public finance*

State support for the power sector is a considerable component of the expenses.

Indeed, it accounts for 6% of revenues recovered from the State in 2012 (compared to 8% in 2011) and 2.5% of the GDP as at that date.

Thus the difficult financial situation of the power sector represents a budgetary risk for the State³.

- *The country's rising debt level remains bearable*

³ Source: IMF country report no.13/170 of June 2013 - Senegal

Table 3: Break-up of the weight of the outstanding debt in relation to the GDP

	2008	2009	2010	2011	2012	2013
Total	19,6	26,8	27,3	27,4	31	32,4
Multilateral creditors	12,1	17,5	18,2	16,5	19	20,7
IDA/IBRD	7	8	8	8,8	9,2	9,6
AfDB/AfDF	1,5	2,2	2,5	2,9	3	3,6
IMF	0,5	1,8	2,9	0	1,9	2,4
OFID/BADEA/IsDB	1,7	3,2	2,7	2,8	2,6	2,6
EIB	0,2	0,3	0,3	0,3	0,2	0,3
Others	1,2	2	1,8	1,7	2,1	2,2
Bilateral creditors	7,5	7,8	7,5	6,6	8,1	8,1
OECD countries	2,2	2,7	2,6	2,1	3,2	3,3
Arab countries	4,1	3,8	2,8	2,2	2,1	2
Others	1,2	1,3	2,1	2,3	2,8	2,8
Commercial creditors	0	1,5	1,6	3,7	3,5	3,3

Source: Senegalese Authorities

The weight of the debt has steadily increased from 19.6% of GDP in 2008, to 31% of GDP in 2012 and then to 32.4% in 2013.

The increase in the weight of the debt by 1.4 points in 2013 is mainly driven by the debt owed to multilateral creditors (IDA, AfDB, IMF...).

The total national debt outstanding in 2012 amounts to CFA 3,076 billion, an increase by 13.8% compared to 2011.

It accounts for 43% of the GDP, in increase compared to 2011 (40%). This level can be regarded as bearable.

The burden of the foreign debt on the next years should continue to increase, in the medium term, due to the use of external financing.

The project for which the funds are raised

✓ A timely project

The Felix Eboué shopping center is a necessity for the City of Dakar and is beneficial to both the City and merchants.

The main benefits include:

- freeing the public space by resettling street merchants to a modern, identifiable and designated space;
- shifting from an informal activity to a formal activity. Access the formal status will make it easier for the merchants to obtain credit to develop their business;
- the change in status is a source of increased tax revenues;
- this very ambitious project is likely to develop commercial activity within the City of Dakar.

Indeed, the high demand (an estimated 10,000 merchants are willing to move into formal facilities), the strategic location as well as the architectural plan of the building should increase the inflow of customers.

✓ Nature and location of the project to be financed

The Petersen site that hosts the Felix Eboué project is located at the heart of the downtown commercial suburb (Plateau) and is therefore a point of convergence of all layers of the populations and, consequently, a major trade area.

In addition, by its geographical position, the site is at the junction of several traffic flows. Accessibility, which is a key factor for the projected infrastructure, is guaranteed here.

The project aims to create a certain transparency by extending the commercial complex into the street (and vice versa).

The complex thus becomes an open gallery between the Papa Gueye FALL Street, the Felix EBOUÉ Avenue and adjacent streets, while linking the Petersen commercial complex in the south to the Eco complex in the north.

With its six (6) floors (including basement) the "Felix Eboué" shopping center offers type A and type B canteens, as well as preferential rights of reservation and rental based on the floor and the type of canteen.

It is planned to build 4241 canteens (4 223 type A canteens and 18 type B canteens) distributed as follows:

- Ground floor:
 - 711 type A canteens with a surface of 3m² each. The unit selling price will be CFA 2,000,000 per canteen for a monthly rental value of CFA 20,000/m²;
 - 18 type B canteens.
- 878 type A canteens on each floor, current (from 1st to 4th floor).

The initial occupancy rate is estimated at 35% in 2016, and the expected maximum occupancy rate is 100% in 2019 (year 3).

With a capacity of 72 parking spaces, the basement also has 14 secure storage boxes at the disposal of potential users.

The occupancy of the ground floor and all upper floors takes into account the diversity of the populations, by putting at their disposal medium and high standing shops as well as lower standing boxes and premises, distributed on a floor-by-floor basis according to a method that can be regarded as appropriate.

According to the construction planning that covers 18 months (cf. appendix 1), carcassing work will take 14 months, electrical work will be completed in 5.5 months and plumbing in 5.25 months.

Other work (i.e. installation, demolitions, tile paving & coatings, metalwork, joinery, painting, outdoor developments, cleaning) will cover 1 to 4.5 months.

The analysis of this planning shows that the "Felix Eboue" shopping center will be delivered in time if all prerequisites to construction are met.

The total amount of the project inclusive of taxes amounts to CFA 20, 975 billion (including a land acquisition cost of CFA 5 billion) and is presented in detail in appendix 2 (not including land acquisition costs).

This diversification of the offer aims to guarantee a respectable visit rate and, consequently, a good level of profitability of the activities carried out there.

✓ **A good management model envisaged**

The management of the shopping center should be conceded to a public limited company, Societe de Patrimoine Immobilier de la Ville de Dakar (SPID SA) established in 2012.

The concession agreement between the City of Dakar and SPID SA was signed by these two parties on 10th December 2014 for a renewable term of 7 years.

It has to be approved by the Conseil Regional de l'Epargne Publique et du Marche Financier (CREPMF).

This agreement states that "*The City of Dakar gives mandate to SPID SA to manage the shopping center it intends to build.*

In this respect, the City of Dakar concedes to SPID SA the marketing of commercial spaces and the collection of the financial flows generated by the shopping center.

SPID SA shall, on behalf of the City of Dakar:

- *market commercial spaces;*
- *collect preferential rights of reservation;*
- *collect rents due".*

SPID SA will collect the revenues of the shopping center, which it will put in an escrow account opened with a bank approved by the CREPMF, to ensure the security and traceability of the funds.

The funds will then be remitted to the Collector of the City of Dakar for the repayment of the loan.

In addition, the City of Dakar has good credit quality and will come in support of the repayment, where necessary.

✓ **Delay in the establishment of project management**

According to the information obtained, the initial duration of the project is two years (January 2015 - January 2017).

The project should actually start in January 2015.

However, no significant progress has been made so far in the realization of the project.

In fact, the work contracting procedure to be initiated by the City of Dakar in accordance with the public procurement code of Senegal has not yet started.

Consequently, the main stakeholders such as the designers (design office, architect) and the executing parties (companies in charge of construction), have not yet been selected.

This situation is likely to affect the completion of the project within a period of two years.

✓ **Marketing of commercial spaces needs to be sustained**

It is planned to sell commercial spaces in the form of acquisitions in cash or on credit.

Despite the high demand, the merchants have two major concerns which are:

- to have adequate spaces,
- to acquire accessible spaces with flexible terms of payment.

The financial barrier remains a real obstacle to successful marketing of commercial spaces.

According to information obtained, measures to support the merchants in terms of access to credit are under negotiation with financial

institutions, to assist the merchants with the acquisition of the commercial spaces.

✓ **The envisaged bond issue**

The bond issue made on the WAEMU financial market amounts to CFA 20 billion with a rate of 6.6% for a period of 7 years. A seven year period of grace is granted as from the date of acquisition of the land, expected to occur in 2014. The loan will be repaid on a half-yearly basis.

The first interest coupons will be paid at the end of the first half of the year.

This bond loan will be used to finance the "Ilot Petersen" project.

✓ **The USAID guarantee**

The US Agency for International Development (USAID) provides a guarantee of 50% of the principal amount of the bond loan.

The establishment of USAID in Senegal gives a boost to economical growth and enhances the business and investment climate.

Thanks to its organizational structure, USAID can achieve objectives such as: humanitarian assistance, promotion of sustainable development in crisis-affected countries, management of risks associated with the climatic environment, as well as risks of human origin.

USAID has set up an instrument encouraging the use of credit but also an extension of financial services to markets with limited access to such services.

This instrument named the DCA (Development Credit Authority), supported by USAID's credit office, aims to widen partnerships with local financial institutions to facilitate the granting of credit.

DCA credit tools available to agencies are *Loan Guarantee*, *Loan Portfolio Guarantee*, *Bond Guarantee* and *Portable Guarantee*.

The DCA tool used in the "Ilot Petersen" project is the *Bond Guarantee*.

It is a mechanism that encourages the development of bond issues in needy markets.

Since this guarantee is arranged by the DCA, it is supported by the American government which commits to raising the funds if the guarantee happens to be exercised.

Agencies eligible to USAID support are financial institutions, private and public companies, and non national entities.

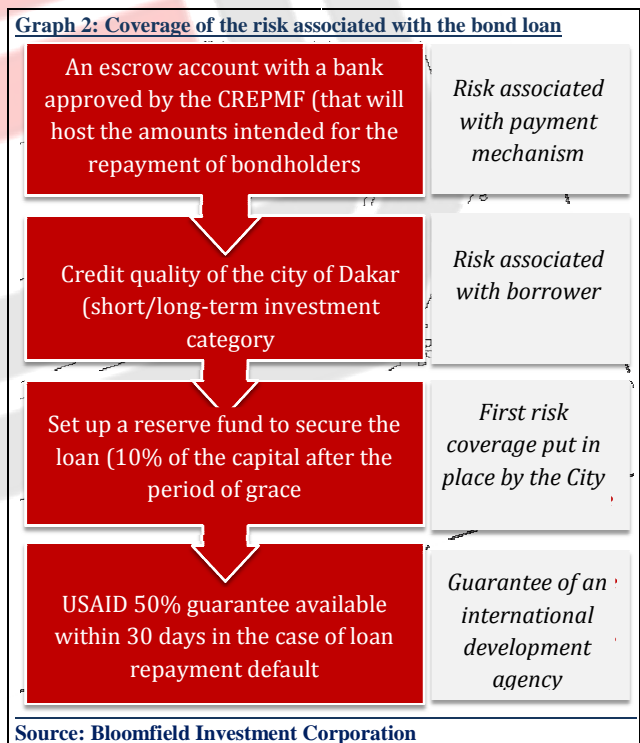
The US government funds USAID through the Treasury after the prior approval of the American Congress.

Moreover, the agency must have its budget approved by three other parental agencies including the Millennium Challenge Corporation, the Ministry of Agriculture and the State.

Mechanisms to secure repayment

The bond loan envisaged by the City of Dakar is supported by mechanisms to secure the payment of future loan installments.

The credit quality of the City of Dakar, the establishment of a reserve fund dedicated to the repayment of the loan installments and the partial guarantee mechanism put in place reassure investors about potential failures.



✓ **Escrow account to be maintained by SPID**

Commercial management is conceded to a semi-public company (mainly held by the City of Dakar), SPID SA.

The Societe de Promotion Immobiliere de la Ville de Dakar (SPID SA) is responsible for marketing the shopping center.

It was established in 2012 and has already been operational in real estate projects.

The company has an escrow account to secure the capital flow from the project.

The revenues of the *Felix Eboue project* will be put in the escrow account and will be used to repay the loan.

These funds are put at the disposal of the Collector, who will transfer them directly to the Central Depository / Settlement Bank to pay bondholders.

✓ **City of Dakar rated in investment category in local currency (CFA)**

The city of Dakar is rated (by Bloomfield Investment Corporation) BBB+ in the long-term and A3 in the short-term with a stable outlook, in local currency.

It is classified in the investment category.

The City of Dakar therefore has good credit quality with a risk of default regarded as "moderate".

The long term rating of the City of Dakar suggests that protection factors are appropriate and are regarded as sufficient to ensure prudent investments.

However, risks are highly variable during economic cycles.

Even though it is good, the City's credit quality remains subject to the economic and financial situation of the country.

Notes de catégorie d'investissement		Notes de catégorie spéculative	
AAA	Risque extrêmement faible	BB+	Risque assez élevé
AA+	Risque très faible	BB	
AA		BB-	
AA-	Risque faible	B+	Risque élevé
A+		B	
A		B-	
A-	Risque modéré	CCC	Défaut probable
BBB+		CC	
BBB		C	
BBB-		D	Défaut avéré

The City's short term rating suggests that liquidity is satisfactory. Other protection factors mitigate any possible issues regarding the investment index.

However, risk factors are higher and are the subject of increased variations.

Notes de catégorie d'investissement		Notes de catégorie spéculative	
A1+	Risque extrêmement faible	B	Risque assez élevé
A1	Risque très faible		
A1-	Risque faible		
A2		C	Défaut probable
A3	Risque modéré		

The credit quality of the City of Dakar, as the issuer, is therefore likely to enhance the credit quality of the bond.

The new law may considerably improve the financial profile of the City of Dakar.

Indeed, the Act III of decentralization relieves the City of Dakar of certain more or less significant charges, which means higher financial flexibility.

The City of Dakar plans to improve its gross savings within 2 years after the effective implementation of the new legal framework for decentralization (cf., infra, table 4).

According to the Senegalese law governing decentralization, repayment of loans by local governments is regarded as a compulsory expenditure.

The compulsory nature of loan repayment is stated by paragraph 10 of article 202 of the Law no. 2013-10 of 28 December 2013 establishing the general code of local governments.

The City is under the statutory obligation to include the repayment of this loan in its budget submitted to the validation of the representative of the State (the Prefect).

Thus, considering the cash flow generated by the Felix Eboue project in the provisional budget of the City of Dakar and the repayment of the principal and interests arising from the bond loan, the City's net savings is strongly in surplus, which means a comparatively high absorption capacity that enables to finance other investments.

Table 4: Projections of the self-financing capacity of the City of Dakar after the implement of Act III of decentralization (in million CFA francs)

In million CFA	2014 budget	2015	2016	2017	2018
Operating revenue	44 879	36 055	39 972	41 704	42 568
Operating expenses (not including financial charges and levies)	25 654	17 451	18 315	19 126	19 955
Financial charges	1 630	2 547	2 185	1 795	1 347
Gross savings	17 595	16 057	19 471	20 784	21 265
Loan repayment (capital)	873	3 511	4 639	6 639	5 439
Net savings	16 723	12 546	14 832	14 145	15 826

Source: Financial forecasts of the City of Dakar (not audited)

The reduction of its expenditure thus provides the City with a self-financing capacity sufficient enough to cover the repayment of loan installments.

This absorption capacity reduces the risk of default in the payment of interests during the period of grace, but also the principal in case the actual profitability of the *project* would not enable to cover the repayment of loan installments.

✓ **The guarantee mechanism set up with USAID provides additional security for the investor**

USAID is a development agency of the US government.

USAID is in the process of obtaining an approval of the Conseil Regional de l'Epargne Publique et des Marches Financiers (CREPMF) Epargne and Financial Markets (CREPMF) to be able to partly guarantee the financial obligation of the City of Dakar.

The approval should normally be granted without problem.

However, administrative constraints could slow down process of the bond issue without this affecting the credit quality of the loan.

The City of Dakar is bound to USAID by an agreement.

This is the contractual basis of the guarantee.

This agreement sets the legal terms of the guarantee and the requirements.

Under the agreement, USAID guarantees to the representative of bondholders that, where the issuer (City of Dakar) is in default of payment, 50% of the unpaid amount will be paid to the interested party.

The USAID guarantee is an additional coverage of the risk.

However, certain conditions limit the coverage level:

- the amount must not exceed the guarantee ceiling⁴ and USAID will have no obligation to make payments directly to any bondholder;
- USAID shall under no circumstances be responsible of interests arising from payment delays, delay penalties, legal or other similar expenses, costs, responsibilities or sanctions;
- the guarantee agreement takes effect when the actions memo authorizing USAID to take part therein is executed by the US manager office and when the budget has been set up and distributed.

Certain requirements are imposed on the City of Dakar as part of this financial operation.

These obligations aim to assure the good realization of the project and to secure the payment of loan installments.

Where the issuer is unable to use revenue of the bond issue to finance the target project, or where the issuer breaches any of its other obligations under the guarantee agreement, the issuer shall, upon a written notice of USAID, correct the breach within 30 days.

The issuer must pay 0.25% of the guarantee ceiling applicable to damages estimated by USAID as a result of the breach.

The agreement requires the City of Dakar to set up a reserve fund dedicated to the repayment of the bond loan.

This reserve fund must include:

- CFA 1.32 billion at the closing of the loan;
- systematically 10% of the principal as from the 5th installment of the loan (i.e. after the two-year period of grace).

The reserve fund is an additional security that enables the City of Dakar to respond to any potential default in first instance, before resorting to the USAID guarantee.

The reserve fund is a prerequisite to the implementation of the contract. The overall completion of the contract will be reviewed by Bloomfield Investment Corporation.

⁴ The guarantee ceiling is the maximum total amount that can be disbursed by USAID in payment of claims under the guarantee agreement.

Financial projections of the Project

- ✓ **Commercial attractiveness of the Felix Eboue project: A good geographic location that enhances the attractiveness of the project**

The geographical location of the project is an important commercial advantage. Indeed, the Felix Eboue shopping center will be the biggest shopping mall of Dakar by its size (in surface and in height).

Moreover, its location in the heart of the City adds to its commercial potential.

The Felix Eboue shopping center will be built at the junction of the Papa Gueye Fall street and the Felix Eboue street.

Map 2: Geographical location of the Felix Eboue project compared to existing shopping centers.



Source: Bloomfield Investment Corporation

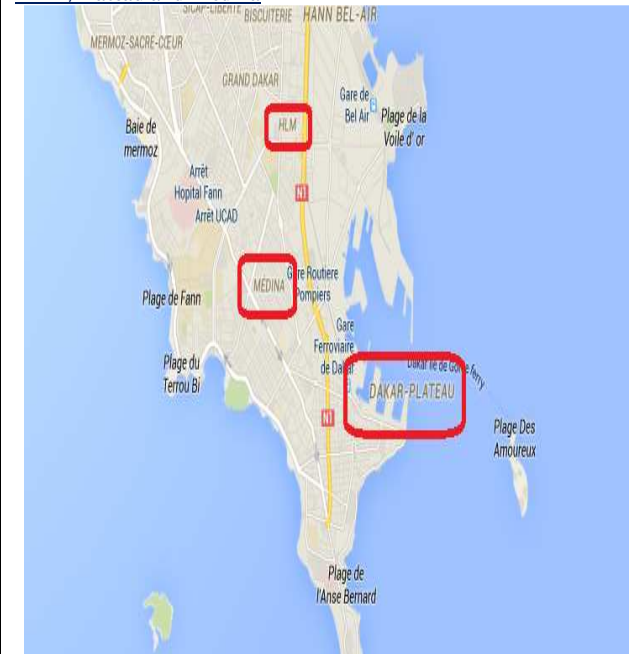
A study conducted by the Cabinet d'Expertise, de Gestion et de Promotion Immobiliere (CEGEPI) highlights the competitive environment in which the project of the City of Dakar is undertaken.

There are already six (6) shopping centers in the municipality of Plateau.

Felix Eboue will be the seventh.

In addition to the 6 shopping centers of Dakar Plateau, each of the two neighboring areas (HLM and Medina) has a shopping center (Elisabeth Diouf at HLM and Roxi Medina at Medina).

Map 3: the market size is distributed among the three areas of HLM, Plateau and Medina



Source: Bloomfield Investment Corporation

The market size available to the eight (8) shops consists of the population concentrated around these three (3) areas.

- Dakar Plateau: 36,901 inhabitants
- Medina: 26,557 inhabitants
- HLM: 46,246 inhabitants

Felix Eboue differs from other shopping centers by the services offered.

Indeed, with the exception of Sicap Plateau, it is the only shopping center that places storage boxes at the disposal of merchants.

Moreover, *Felix Eboue* seems to be more easily accessible and offers larger parking spaces (multi-storey parking lots available).

'Ilot Petersen' is at the junction of four (4) important roads (Papa Gueye Fall Street, Faidherbe Avenue, Petersen Avenue and Felix Eboue Street).

Finally, the project involves the construction of a six-storey commercial space (a basement, a ground floor and 4 floors).

This should make Felix Eboue the biggest shopping center of the three municipalities.

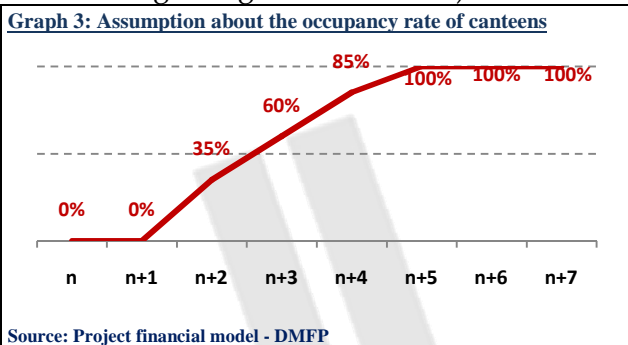
- ✓ **The cultural issue of multi-storey markets. Optimistic commercial assumptions**

The commercial assumptions serving as the basis of the financial model of the Felix Eboue

project consider a constant increase in the occupancy rate of canteens up to the ceiling of 100%.

Indeed, the estimated implementation period of the project being two years, the occupancy rate is 0% during this period.

As from the first year of activity, (from the 3rd year after the beginning of construction), the occupancy rate will be 35% and will reach 100% during the 4th operating year (i.e. 6 years after the beginning of construction).



However, the study conducted by CEGEPI shows that most of the existing shopping centers do not achieve 100% occupancy rate.

Table 5: Occupancy rate of shopping centers in Dakar by floor

Commercial center	GF	Upstairs
SICAP PLATEAU	100%	50%
TOUBA KHELCOM	100%	100%
EL MALICK	50%	20%
PETERSEN	100%	10%
TOUBA SANDAGA	100%	50%
DJILY MBAYE	30%	5%
ROXI MEDINA	100%	30%
ELISABETH DIOUF	100%	30%

Source: Study of rents in the shopping centers in Dakar - CEGEPI

The occupancy rate of shopping centers is limited by the low attractiveness of upstairs spaces. The average upstairs occupancy rate of shopping centers in Dakar is 37%.

Thus, achieving 100% occupancy rate can be regarded as "not very probable" insofar as 83% of the shopping center consists of upstairs canteens.

The expected financial profitability can therefore be questioned if the occupancy rate does not reach 100%.

However, the commercial strategy put in place by the City tends to partly respond to this risk.

In fact, a specialization of floors is envisaged in order to oblige merchants to occupy all floors.

However, such a strategy could have an opposite effect on the overall attractiveness of the *Felix Eboue* commercial offer.

Moreover, it is planned to apply sliding scales rates for canteens according to the floor, in order to make upper floors more attractive to merchants.

The anticipated prices remain averagely above those applied at SICAP Plateau.

Table 6: Pricing of floors at Felix Eboue

Commercial centers	Sale/m+D2	Rental/m2 per month
SICAP PLATEAU 2nd & 3rd floor	1 413 000	
FELIX EBOUE 1 st floor	1 800 000	28 000
FELIX EBOUE 2 nd floor	1 600 000	25 000
FELIX EBOUE 3 rd floor	1 400 000	23 000
FELIX EBOUE 4 th floor	1 200 000	20 000

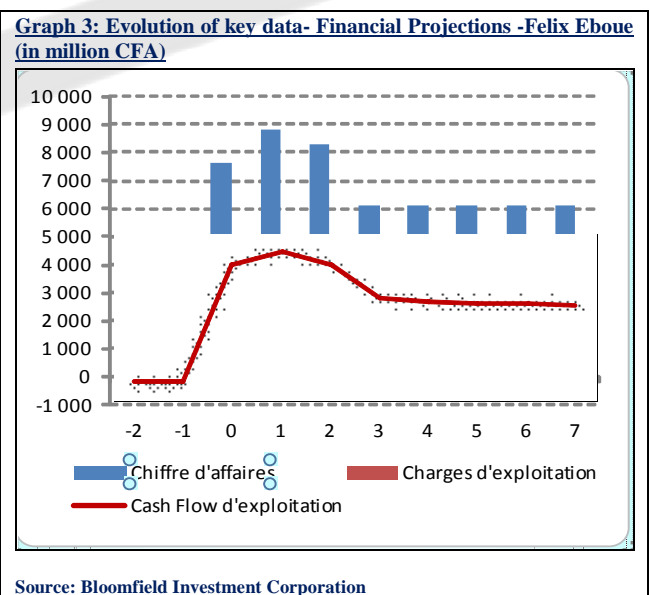
Source: Project financial model – DMFP / CEGEPI study

✓ **Design of the financial projection plan**

Table 7: Summary of the financial projection plan - Felix Eboue

In million CFA	Years (Term of the loan)						
	-2	-1	0	1	2	3	4
Turnover	0	0	7 607	8 824	8 274	6 082	6 082
Operating charges	98	140	3 630	4 356	4 248	3 264	3 379
(in % of turnover)	-	-	48%	49%	51%	54%	56%
Gross operating surplus	-98	-140	3 977	4 468	4 026	2 818	2 703
GOS margin	-	-	52%	51%	49%	46%	44%
#NOM?	8	4	-343	-41	37	101	10
Operating cash flow	-90	-137	3 634	4 427	4 063	2 919	2 713
Investments	9 800	10 200	0	0	0	0	0
Free Cash Flow	-9 890	-10 337	3 634	4 427	4 063	2 919	2 713
(in % of turnover)	-	-	48%	50%	49%	48%	45%

Source: City of Dakar



The Felix Eboue shopping center was planned to be operational in 2016 (year 0).

Based on the financial projections made by the City, the turnover can be analyzed in three phases:

- a growth phase observed between year 0 and year 2 (8.7%);
- stability between year 3 and year 4, corresponding to the end of the term of the loan, until year 8 (see appendix 3);
- a decline by 2.35% in year 9.

The evolution of operating expenses is as follows:

Table 8: Composition and evolution of operating expenses

In million CFA	Years (Term of the loan)						
	-2	-1	0	1	2	3	4
general administration	0	0	380	441	414	304	304
Electricity	0	0	532	618	579	426	426
Water	0	0	228	265	248	182	182
Telephone & communications	0	0	76	88	83	61	61
Maintenance	0	0	913	1147	1158	912	973
Salaries and benefits	0	0	989	1235	1241	973	1034
Insurance	98	140	131	121	111	101	95
Security	0	0	380	441	414	304	304
TOTAL	98	140	3 630	4 356	4 248	3 264	3 379

Source: City of Dakar

Operating expenses basically consist of salaries and benefits representing averagely 32% of operating expenses during the period.

Projected operating expenses fluctuate strongly between year -2 and year 9 (+ 4,234%) because the project is to start during year 0.

From year 3 (2019), operating expenses decline by 19% until year 5 (2021).

From year 6 (2022), they begin to rise again up to CFA 3,565 million at the end of year 9 (2025).

We do not have any supporting documents to give an opinion about the justification of the assumptions retained regarding the evolution of project operating expenses.

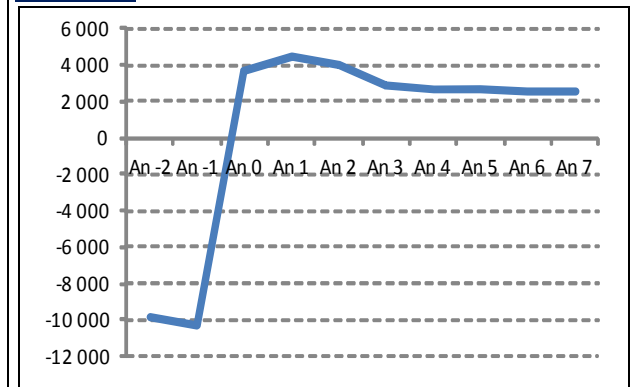
Based on financial projections, the operation of the project should be profitable with an average "gross operating surplus/turnover" ratio of 45%.

The estimated working capital requirement does not vary significantly during the period and does not affect the formation of the operating cash flow.

The operating cash flow is positive but follows an uneven trend during the period.

The free cash flow is also uneven, with an average of CFA 3,043 million.

Graph 3: Evolution of provisional Free Cash Flow -Felix Eboue (in million CFA)



Source: Bloomfield Investment Corporation

We have no comment concerning the preparation of the financial projections of the Felix Eboue project.

However, while we do not question the merits of the project, we do not have sufficient information to assess the basis of the assumptions underlying the financial projections.

✓ **The service of the debt arising from the operation is only partially borne by the Felix Eboue project**

The envisaged financial assumptions do not enable the project to fully cover the service of the debt arising from the bond loan.

Indeed, the cash flow to be generated yearly after the commissioning of the shopping center covers the debt service only partly.

Table 9: Ratio of cash flow to debt service

	Cash flow generated by the project	Debt service	Variation
Year 0*	3 634 111 358	3 320 000 000	314 111 358
Year 1	4 426 665 564	5 122 000 000	-695 334 436
Year 2	4 063 006 648	4 858 000 000	-794 993 352
Year 3 (2019)	2 918 898 108	4 594 000 000	-1 675 101 892
Year 4 (2020)	2 712 910 882	4 330 000 000	-1 617 089 118
Year 5	2 653 769 809	2 066 000 000	587 769 809

*1st year of marketing of the canteens (after the two years of construction)

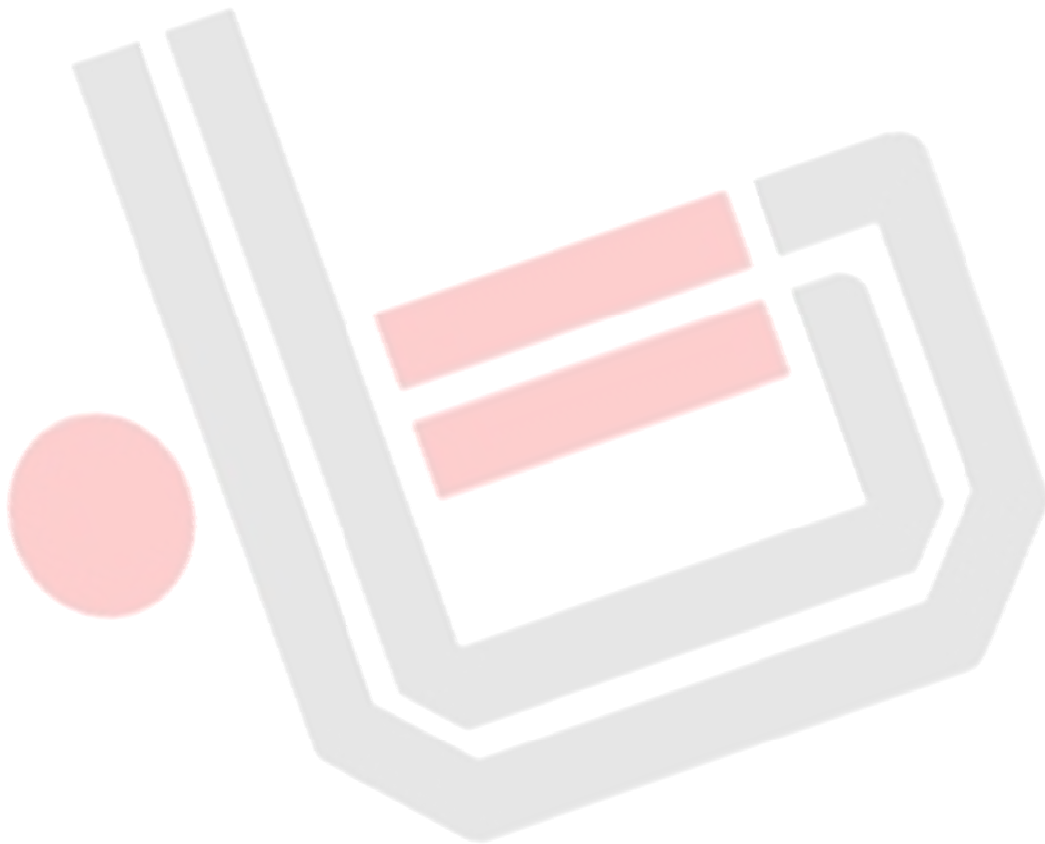
Source: Project financial model

The cash flow generated by the Felix Eboue project between operating year 1 and year 4 cannot cover the financial commitments associated with the project.

The debt service during these four specific years is systematically higher than the cash-flow generated.

If the cash flow generated by the project is unable to cover the debt service, the debt service can be borne easily by the City of Dakar given the fact that the debt service is minor

compared to the City's operating revenues (12% at the end of 2013) and its financial projections following the implementation of Act III of decentralization.



Appendix 1: Projected construction cost of the Felix Eboue Shopping center

Dakar, Mars 2014

**PROJET DE CONSTRUCTION D'EQUIPEMENTS MARCHANDS SUR
L'AVENUE FELIX EBOUE A DAKAR
APPROCHE DE COUT CONSTRUCTION**

DESIGNATION	SURFACE TOTALE en m ²	COÛT AU M ²	COÛT DE CONSTRUCTION en Francs CFAHT
A - COUT CONSTRUCTION			
I - SOUS SOL	3233	380 000	1 228 540 000
Parking 80 Places			
15 Boxes de rangement (de 10 à 13 m ²)			
Locaux techniques			
Circulation horizontales et verticales			
Sous total Sous Sol	3 233.00		1 228 540 000
II - REZ DE CHAUSSEE			
Surface couverte HOB composée de :	9145	200 000	1 829 000 000
711 Cantines de Type A (3,00m ²)			
18 Cantines de Type B (12m ²)			
- d'une Galerie			
- de patios secs et d'espaces verts			
- de circulations horizontales et verticales			
Sous total RDC	12 378.00		1 829 000 000
III - 1ER ETAGE au 4ème etages			
Surface couverte HOB par niveau : 8 800 m ²			
Soit au total pour les 4 niveaux :	35200	200 000	7 040 000 000
composée de :			
Cantines Type A : 878 par niveau soit 3 512 Cantines			
- de Galeries			
- de batteries der toilettes			
TOTAL	47 578.00		7 040 000 000
IV - PARKINGS AERIENS			
6 Niveaux de parking d'une surface de 625 m ² par niveau	3 750.00	280 000	1 050 000 000
40 Places de parking par niveau			
Nombre total de places = 240			
Sous total Parkings Aeriens	98 906.00		1 050 000 000
V - PARKINGS VISITEURS			
32 places de parkings de 16 m ² environ	512	85 000	43 520 000
Sous total Parkings Visiteurs			43 520 000
Cout total construction Hors taxes			11 191 060 000
TVA 18%			2 014 390 800
TOTAL TTC			13 205 450 800
B - / EQUIPEMENTS ET AMENAGEMENTS EXTERIEURS			
1 Ascenseur 500 kg - 1,6m/s	20,00	20 000 000	400 000 000
2 Groupes électrogène 600 KVA	-	-	200 000 000
2 Bâches à eau 30 m3 équipées	-	-	50 000 000
Aménagements extérieurs 5%			559 553 000
Equipements Hors taxes			1 209 553 000
TVA 18%			217 719 540
TOTAL TTC			1 427 272 540
C - / HONORAIRES ETUDES			
Etudes architecturales - (6,5%)			727 418 900
Etudes techniques (Béton armé et Lots techniques) (1,7%)			190 248 020
Bureau de contrôle (1,5%)			167 865 900
Topo et géomètre (0,4%)			44 764 240
Etude de sol			8 000 000
Honoraires études Hors taxes			1 138 297 060
TVA 18%			204 893 471
TOTAL TTC			1 343 190 531
COÛT TOTAL DU PROJET TTC			15 975 913 871

Appendix 2: Construction schedule of the Felix Eboue Shopping center

Task	Duration in months																	
	1	2	3	3	5	6	7	8	9	10	11	12	13	14	15	16	17	18
Installation (1 month)	█																	
Demolitions / Earthwork (2.5 months)	█	█	█															
Carcassing (14 months)		█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█	█
Plumbing (5.25 months)			█	█	█	█	█		█	█		█	█	█		█	█	█
H & L voltage power (5.5 months)			█	█	█	█		█		█			█	█	█		█	█
Floor tiling & coating (4 months)							█	█	█	█			█	█			█	█
Metalwork (4.25 months)							█	█	█	█			█	█			█	█
Woodwork (3 months)							█	█	█				█	█			█	█
Tightness (4.25 months)							█	█	█	█			█	█			█	█
Painting (4.5 months)								█	█		█	█		█	█		█	█
Outdoor developments (3 months)																█	█	█
Cleaning and withdrawal (2 months)																	█	█

Appendix 3: Financial projections of the ILOT PETERSEN commercial space in Dakar (Senegal)

	2014	2015	2016	2017	2018		
(in million CFA)	Y-2	Y-1	Y 0	Y 1	Y 2		
Operations							
Revenues	-	-	7 606 916 884	8 823 601 687	8 274 464 890		
Operating charges	98 000 000	140 250 000	3 629 681 767	4 356 078 810	4 248 232 445		
Gross operating surplus	(98 000 000)	(140 250 000)	3 977 235 117	4 467 522 877	4 026 232 445		
Financial result	(660 000 000)	(1 320 000 000)	(1 320 000 000)	(1 122 000 000)	(858 000 000)		
Net result	(758 000 000)	(2 435 250 000)	1 177 564 582	1 659 366 014	1 535 262 712		
Cash Flow							
Free cash flow	(9 889 833 333)	(10 336 729 167)	3 634 111 358	4 426 665 564	4 063 006 648		
Balance sheet							
Net fixed assets	9 800 000 000	14 025 000 000	13 050 000 000	12 075 000 000	11 100 000 000		
Bank and cash	(749 833 333)	(2 206 562 500)	17 602 878 322	16 196 387 023	14 743 423 938		
Equity	(758 000 000)	(3 193 250 000)	(2 015 685 418)	(356 319 404)	1 178 943 308		
Total liabilities	9 050 166 667	16 818 437 500	16 286 788 063	14 006 687 164	11 532 962 678		
Ratios							
Debt/Equity ratio	108/-8	119/-19	113/-13	103/-3	89/11		
Debt service	660 000 000	1 320 000 000	3 320 000 000	5 122 000 000	4 858 000 000		
IRR	16,75%						
NPV	12 212 228 991						
DSCR (mini)	(0,7)	(0,1)	(0,7)	6,3	4,2	4,0	
	2019	2020	2021	2022	2023	2024	2025
(in million CFA)	Y 3	Y 4	Y 5	Y 6	Y 7	Y 8	Y 9
Operations							
Revenues	6 082 252 812	6 082 252 812	6 082 252 812	6 082 252 812	6 082 252 812	6 082 252 812	5 938 636 812
Operating charges	3 264 021 462	3 378 916 518	3 432 989 047	3 487 061 575	3 541 134 103	3 595 206 631	3 564 545 719
Gross operating surplus	2 818 231 350	2 703 336 294	2 649 263 765	2 595 191 237	2 541 118 709	2 487 046 181	2 374 091 093
Financial result	(594 000 000)	(330 000 000)	(66 000 000)	-	-	-	-
Net result	874 461 945	1 188 835 405	1 335 784 636	1 344 133 866	1 306 283 096	1 268 432 327	1 189 363 765
Cash Flow							
Free cash flow	2 918 898 108	2 712 910 882	2 653 769 809	2 599 697 281	2 545 624 753	2 491 552 225	2 383 504 017
Balance sheet							
Net fixed assets	10 125 000 000	9 450 000 000	8 775 000 000	8 100 000 000	7 425 000 000	6 750 000 000	6 075 000 000
Bank and cash	12 693 552 640	10 566 962 634	10 582 253 314	12 605 893 224	14 591 682 364	16 539 620 735	18 413 397 424
Equity	2 053 405 253	3 242 240 658	4 578 025 294	5 922 159 160	7 228 442 257	8 496 874 583	9 686 238 348
Total liabilities	8 325 407 041	5 523 817 035	4 864 107 715	6 212 747 625	7 523 536 765	8 796 475 136	9 983 283 825
Ratios							
Debt/Equity ratio	75/25	38/62	0/100	0/100	0/100	0/100	0/100
Debt service	4 594 000 000	4 330 000 000	2 066 000 000	-	-	-	-
IRR							
NPV							
DSCR (mini)	3,8	3,4	6,1				

Appendix 4: Provisional loan amortization plan

Amount	20 000 000 000					
Duration (semi-annual periods)	10					
Périodicity (semi-annual periods)	2					
Period of grace	4 periods					
Annual rate inclusive of tax	6,60%					
Total interest	6 270 000 000					
Total repaid in the end	26 270 000 000					
Gross cost of the debt	6 270 000 000					

YEAR	#	Due date	Capital remaining due	Interest	Amortized capital	Amount due
Total	-			6 270 000 000	20 000 000 000	26 270 000 000
2014	-	1-déc.-14	20 000 000 000	660 000 000	-	660 000 000
2015	-	1-juin-15	20 000 000 000	660 000 000	-	660 000 000
2015	-	1-déc.-15	20 000 000 000	660 000 000	-	660 000 000
2016	-	1-juin-16	20 000 000 000	660 000 000	-	660 000 000
2016	1	1-déc.-16	20 000 000 000	660 000 000	2 000 000 000	2 660 000 000
2017	2	1-juin-17	18 000 000 000	594 000 000	2 000 000 000	2 594 000 000
2017	3	1-déc.-17	16 000 000 000	528 000 000	2 000 000 000	2 528 000 000
2018	4	1-juin-18	14 000 000 000	462 000 000	2 000 000 000	2 462 000 000
2018	5	1-déc.-18	12 000 000 000	396 000 000	2 000 000 000	2 396 000 000
2019	6	1-juin-19	10 000 000 000	330 000 000	2 000 000 000	2 330 000 000
2019	7	1-déc.-19	8 000 000 000	264 000 000	2 000 000 000	2 264 000 000
2020	8	1-juin-20	6 000 000 000	198 000 000	2 000 000 000	2 198 000 000
2020	9	1-déc.-20	4 000 000 000	132 000 000	2 000 000 000	2 132 000 000
2021	10	1-juin-21	2 000 000 000	66 000 000	2 000 000 000	2 066 000 000
2021	-	1-déc.-21	-	-	-	-