



## BURUNDI

# LANDSCAPE OF INVESTMENT

### BACKGROUND

The report presents an in-depth analysis of the landscape of investment in Burundi. It provides useful data on existing DFI investors, the type of instruments they use to invest and the investment environment they operate in. The report forms part of The Centre for Affordable Housing Finance's **Investor Programme** which aims to quantify the breadth of investment activity with respect to housing and housing finance across Africa, and to establish a mechanism to track this on an ongoing basis. This project has collected data 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 EAC Region.

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<sup>1</sup>.

However, a key barrier to this growth remains the chronic lack of rigorous data on the breadth and character of financial infrastructure investment. 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 & 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<sup>2</sup>.

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

<sup>1</sup> See the Tanzanian Mortgage Refinancing Company (TMRC) and the Nigerian Mortgage Refinancing Company (NMRC) established under financial sector development projects of the World Bank

<sup>2</sup> In late 2016, the DFCU, the third largest provider of mortgage finance in Uganda, hit its cap for the real estate sector of UGX 160 billion (20 percent of the bank's total exposure), and has since halted the provision of mortgages. What triggered the halt was the bank's benchmarks of 8% for the Portfolio at Risk and the Non-Performing Loans of 2%. It is also worth noting that loans that were booked in USD had a major effect on exposure as the dollar appreciated more than the shilling over a period of five years.

## PROFILES OF INVESTORS

The investment landscape in Burundi, constitutes mainly foreign institutional investors. Below is a description of foreign investors. Factors that have impeded the development of local institutional developers are also presented.

### Local Investments are still a challenge and underdeveloped

The financial sector in Burundi is the least developed in the EAC region. According to the Bank of the Republic of Burundi (BRB), the use of formal financial services is shallow. Only 12.5 percent of the population have a savings account and 2.9 percent have a formal bank loan. The majority of the depositors (over 90 percent) hold only one account and the vast majority of the borrowers (over 95 percent) have only one loan.

The deposit volume is strongly concentrated in Bujumbura City where the headquarters of financial institutions are located. This may restrict loan-granting in the rest of the country. The loan portfolio is concentrated in Bujumbura City (over 85 percent). Fewer than 14 percent of nationals regularly save in financial institutions. Against a low level of deposit savings, commercial institutions are constrained in creating mortgage assets to the sector. Beyond household savings and commercial bank deposits, there are severely limited sources of liquidity for the housing finance sector.

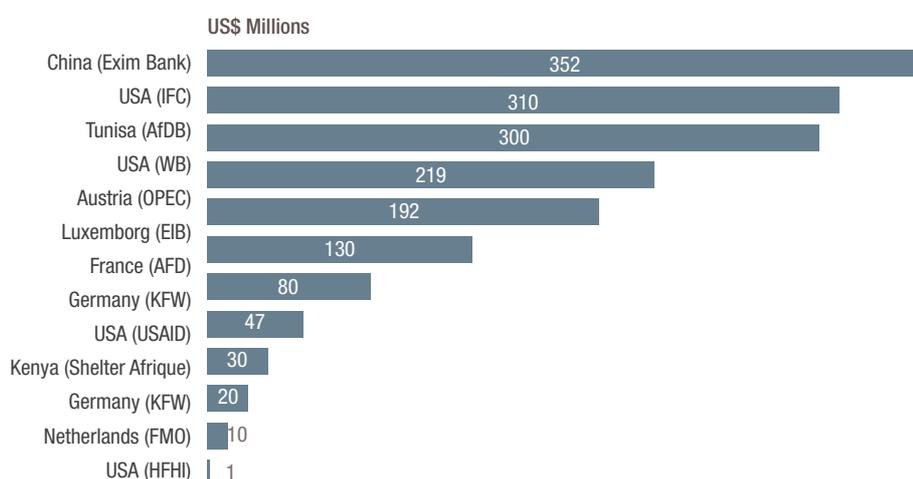
Opportunities for raising long-term funds the pension and insurance industry have not been catalysed. Traditionally, these two segments have provided long-term finance to boost the mortgage market in several countries globally. There is a great need to mobilize funds from the L'Institut nationale de sécurité sociale (INSS), the leading pension services provider in Burundi. Prioritising housing and the housing finance sector in INSS' agenda has the potential to significantly increase the level of access to affordable housing in Burundi.

### Foreign Institutional Investors – a purely multi-sectoral approach, not targeting housing

All foreign investors in Burundi are DFIs. These DFIs have a multi-sectoral funding approach and are not specifically targeted to the housing and housing finance value chain. The bulk of funds flowing into the country are in support of the government's fiscal deficit (about 52 percent). However, these funds have indirectly contributed to developments along the housing and housing finance value chains. Indirect funding streams include infrastructure developments and the financing of SMEs, some of whom are engaged in construction or manufacturing of housing products.

As is the case with the other EAC member states, China (through Exim Bank) is home to the biggest source of investments in Burundi. However, Exim Banks' assets to Burundi are modest (US\$ 352 million, over the period 2000 to 2017), compared to the billions of US Dollars invested in other EAC member states. USA is home to the second biggest source of investments, through its resident institutions – WB (US\$ 129 million) and IFC (US\$ 310 million). Collectively, Burundi's 12 DFIs invested close to US\$ 1.7 million, in the past 17 years (2000 – 2017).

Institutional Investor, Location and Total Asset Allocation to Burundi (2000 - 2017)



Source: various DFI Annual Reports (2000 – 2020)

All funds have been lines of credit, channeled through Banque de la République du Burundi (the Central Bank of Burundi), under the administration of the Ministry of Finance. Typical terms of payment include a tenor of between 5 and 10 years, with a grace period of 1 year. Interest is paid at a rate of 3-month LIBOR plus a margin of 5.55 percent on the outstanding loan. Re-payments are bi-annually.

The table below presents a summary of projects funded by DFIs that might have indirectly contributed to the growth of Burundi's housing and housing finance sector.

**Portfolios and Products of Institutional Investors in Burundi's Housing Finance Sector**

Investor	USD (Millions)	Period	Intermediary Bank	Products and Impact
EIB	130	8 years (2005 – 2017)	Government of Burundi through the National Economic Development Bank	Support for government projects, building, manufacturing, construction and other SMEs.
World Bank	129	10 years (2000 – 2017)	Government agencies for budgetary support	Support for infrastructural developments
AFD	80	7 years (2000 – 2017)	Government of Burundi, Bank of the republic of Burundi (central Bank), National Bank for Economic Development	Guarantees and concessional credit line for the development of renewable energies, energy efficiency and the health sector in Burundi
Habitat For Humanity	<1	5 years (2000 – 2017)	World Vision Burundi	Construction of refugee resettlement units
FMO	10	7 years (2005 – 2017)	The African Rivers Fund (ARF)	Renewable energy, road construction support and agricultural development
IFC	100	10 years (2008 – 2017)	Interbank Burundi (IBB), Diamond Trust Bank Burundi S.A, PROGIMMO S.A ("Progimmo" or the "Company"), a local property developer in Burundi	Renewable energy, road construction support and agricultural development
AFDB	300	8 years (2002 – 2017)	Government of Burundi	Agriculture, Budgetary Support, Water and Sanitation, Infrastructure

Source: various DFI Annual Reports (2000 – 2020)

## Impact of Investments on Burundi's Housing Industry

### Breadth and Depth of Investments

#### Mortgages

The penetration of housing finance packages in Burundi is still in its infancy with only three banks (the Burundi Bank of Commerce and Investment, Eco Bank Burundi and KCB Bank) and the two financial institutions (the Fund for the Promotion of Urban Housing and the National Bank for Economic Development) that offer housing and real estate loans. The mortgage portfolio in these three banks is estimated at US\$ 2.9 million (Q4 of 2016), disbursed to 1,500 (less than 1 percent of formally employed individuals). This is a clear indication that the housing finance sector is characterized by unmet demand, particularly among lower-middle and low-income earners, who constitute over 90 percent of the population.

#### Property Developers

Burundi has a housing shortage of about 2 million units, growing at an annual rate of 20,000 units. However, the supply side of housing in Burundi is dominated by individual home-owners, building their homes for occupation. There is a limited number of low cost units being constructed for rental purposes, particularly in the major urban areas. It is hard to find a medium to large scale real estate developer, capable of constructing more than 200 units annually. In Bujumbura City, no housing estates over 50 units are in development.

## Characteristics of the Housing Finance Market in Burundi

Component	Fund for the Promotion of Urban Housing (FPHU)	National Bank of Economic Development Burundi (BNDE)	Bank of Commerce and Investment (BBCI)	KCB Bank	Eco bank Burundi
Housing Finance Product	Home purchase, construction, and Home Improvement	Construction, and Home Improvement	Home purchase, and Home Improvement	Home purchase, & Home Improvement	Home purchase & construction
Portfolio Size USD	1,416,000	210,000	138,000	800,000	400,000
Number of Housing Finance Loans	4700	700	600	400	200
Average Loan Size (USD)	\$ 30,133	\$ 30,000	\$ 23,000	\$ 20,000	\$ 20,000
Max Loan Size –Amount in BIF	US\$32 310	US\$32 310	US\$32 310	US\$32 310	US\$32 310
Loan Term	10yrs.	10yrs.	10yrs.	10yrs.	10yrs.
Pricing	16%	16%	19%	19%	19%
Implied Monthly Income	US\$ 1,300	US\$ 1,300	US\$ 1,000	US\$ 1,000	US\$ 1,000

Source: Kils with Banks

### Investment Challenges/opportunities

The country's interest rates on mortgages have remained high above 16 percent on average, in line with rates in other East African countries, because of a lack of sufficient long-term funds. In addition, the low macro-economic growth (0.9 percent in 2016 and -4.1 percent in 2015) that has consistently driven domestic borrowing to meet budgetary needs, has kept mortgage rates high.

As the country recovers from the last politically tense two years, the Burundian Government, with support from Social Impact Investors, should prioritize affordable housing projects, targeting very low-income earners (average monthly wage is about BIF 160 000 (US\$103.4), who constitute over 85 percent of the population.