



## CENTRAL AFRICA REPUBLIC'S LANDSCAPES OF INVESTMENT

### BACKGROUND

This country report forms part of The Centre for Affordable Housing Finance's Investor Programme which aims at addressing 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 the Central African Republic's housing and housing finance sector. The overall goal of this project is 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 Central African Republic.

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 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 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.

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.

## PROFILES OF INVESTORS

In the past decade, only US\$ 7 million has been directly invested in the Central African Republic (CAR) housing sector. There is no evidence of direct investments made by the Government in the housing sector. Since 2012, CAR has been facing an increasingly complex political and humanitarian crisis. Nonetheless, close to US\$ 300 million in aid, has supported institutional building and the correction of market failures and policy distortions, as part of efforts to stabilize the economy and in turn, increase confidence among institutional investors to commit sizeable investments to the development of a competitive housing and housing finance sector.

In 2016, the European Union pledged a US\$ 70 million grant to rebuild administrative buildings destroyed during the conflict. Also, the IMF has provided a US\$ 11.8 million grant to help the Government address urgent needs, including resolving the balance of payments and implementing its economic stimulus plan. Additionally, the CAR received a US\$ 60 million grant from the Saudi Fund to rebuild and rehabilitate infrastructure. International non-governmental organisations (INGOs) like Catholic Relief Services (CRS) and Norwegian Refugee Council (NRC) invested an estimated US\$7million in supporting 19,000 households to repair their homes. These INGOs are funded by several organisations/foundations and home governments.

UN-HABITAT and the European Union launched an infrastructure development project in the Central African Republic as part of a programme aimed at strengthening the capacities of local authorities. The one-year project, funded to the tune of US\$ 1 million, aimed at reigniting sustainable local economic development in 10 cities to improve housing deficiencies, the environment, infrastructure, basic social services and security in the local authorities.

Other indirect investments that are likely to have a reasonable impact on the housing and housing finance sectors include; (i) US\$ 125 million loan from the World Bank (in 2012) to the Government for transport infrastructure and regional trade; (ii) US\$ 20 million grant to the Government to restore basic fiscal management, improve transparency and assist with economic recovery; and (iii) the four year Programme d'Appui à l'Emergence d'un Secteur Financier Inclusif en Republique Centrafricaine (2007 to 2011) funded by the Government, UNCDF and UNDP, to support the emergence of an inclusive financial sector in CAR, in order to give the poor and low income population access to sustainable financial products and services provided by microfinance institutions.

### Challenges/Opportunities to Deepening the Investment Landscape in CAR

The housing industry in the Central African Republic is significantly small (both in size and quality), to adequately meet the country's annual housing requirement of 500,000 units, in the medium term. The annual housing supply is estimated at less than 1,000 units, most of which (over 90%) has been delivered by humanitarian agencies (Catholic Relief Services and Norwegian Refugee Council), through repair of structures that were destroyed by the civil war in 2013. Regrettably, the paltry average income of US\$ 3 per month cannot support households build houses of the right quality and standards, worthy a reduction in the national housing requirement.

The National Social Security Fund (Caisse Nationale de Sécurité Sociale) exists, but has the same structural problems (low mobilization capacity, inadequate collections, and weak financial sector). Besides this there are only three insurance companies for the whole country, with a presence almost only in Bangui.

Central Africa Republic features no money market, no domestic securities market, and no foreign exchange market. However regional capital markets, in CEMAC countries (where CAR is a member) have established a common regional Stock Exchange, the "Bourse des Valeurs Mobilières de L'Afrique Centrale" (BVMAC), located in Libreville, which began trading activities in late 2008. Under CEMAC, national treasuries are allowed to issue Treasury bills and bonds through weekly and monthly auctions. Treasury Bills (T-Bills): Maturities available are 13 weeks, 26 weeks and 52 weeks. Treasury Bonds (T-Bonds): Maturities available are equal or greater than 2 years. The nominal value of T-Bills is set at XAF 1 million or a multiple of this amount. The nominal value of Treasury bonds XAF 10 000 or a multiple of this amount. The T-Bills and T-Bonds have the same characteristics for all CEMAC members.

Only 0.5 percent of the population can afford a mortgage (of US\$ 14,000), compared to 44 percent in Kenya and 28 percent in Uganda. The loans are secured by first order mortgages on the concerned properties and mostly supplied to public and private administration workers (above US\$ 500). Because of their higher credit ratings, salaried civil servants and employees of large trading companies receive

most of the loans. The lowest recorded interest rate on a mortgage in CAR is 16 percent, and requires at least a 30 percent down payment, payable within 15 years. The total mortgage portfolio by the four main providers of housing finance close to US \$ 8 million. The average mortgage size is less than US\$ 10,000. In 2016, there were about 1 000 mortgage loans.

### **Investment opportunities in the Housing Industry in Central Africa**

The main recommendation is to liberalize the housing and housing finance sectors, to help mobilize sufficient long-term funds to address the housing short-falls. Below is the justification:

Dominance of the public sector in delivery of housing developments tends to exclude the private sector. The private sector plays a significant role in the entire housing finance delivery. On the financing side, private sector institutions tend to be well-structured in terms of corporate governance framework. They therefore tend to access funding with relative ease from international financial institutions such as the African Development Bank and International Finance Corporate, the critical players in the African housing finance landscape. Additionally, private entities have been seen to champion the delivery of both affordable housing units and affordable finance for the final off-takers.

Once the economies are liberal enough, World Bank funding (and other social impact investors) should support institutional building of the debt capital markets and the stock exchange, from which a substantial portion of long-term funding can be sourced locally. World Bank funding should also help correct market failures and policy distortions, created by the long periods of Government monopoly, as part of efforts to stabilize the economy and in turn, increase confidence in foreign institutions to commit sizeable investments to the development of a competitive housing and housing finance sectors.