Country Report

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Centre for Affordable Housing Finance in Africa

South Sudan
LANDSCAPE OF INVESTMENT

BACKGROUND

The report presents an in-depth analysis of the landscape of investment in South Sudan. 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 at 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 the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa[1].

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[2].

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.

www.housingfinanceafrica.org

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

2 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.

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PROFILE OF INVESTORS

The investment landscape in South Sudan, constitutes few foreign institutional investors. Below is a description of foreign investors and factors that have impeded the development of local institutional developers.

Local Investments are still a challenge and underdeveloped

In South Sudan, the financial sector is underdeveloped and does not provide accurate data on the performance and financial practices of key players. Given the fragile economic situation especially after December 2013, investors have been reluctant to invest and banks have had to rely on diminishing customer deposits, retained earnings and borrowings for primary funding.

Commercial banks have limited use of debt in growing their balance sheets and gearing remains extremely low. South Sudan does not have equity capital markets from which additional funding could be raised. Major housing finance providers such as KCB and Equity Bank have each posted losses largely due to non-performing loans and the capped interest rate following the collapse of the South Sudan economy - faced with hyper-inflation resulting from the devaluation of the South Sudan pound and floating of the exchange rate. The four main banks offering housing finance in South Sudan have lost US$774 million through bad loans since the collapse of the economy in 2014.

Additionally, reliance of parent companies on local subsidiary banks has increased over the past years. KCB Bank, Equity bank and Eco bank have all continued to steer through the turbulent economic times in South Sudan by relying on their holding companies' success in securing long-term offshore credit facilities to augment their funding base and provide capacity to underwrite SME loan products. For instance, Equity bank secured additional lines of credit from the International Finance Corporation (IFC) of US $100 million to support women entrepreneurs, to the benefit of its South Sudan subsidiary. The medium term loan from the IFC was secured at an interest rate of LIBOR + 2.75% and matures in March 2019. Another line of credit for Equity bank came from the China Development Bank (CDB). The CDB medium term loan for US$37.5m accrues at the rate of LIBOR +2.2% margin and matures in November 2017. Co-op bank, through its parent company, accessed a 7 year EURO 70m loan from European Investment Bank (EIB) at 8.0%, for its operations in South Sudan. The Central bank of South Sudan is the biggest borrower of commercial bank deposits through the sale of treasury bills.

Foreign Institutional Investors in Housing Related Programs

South Sudan's housing and housing finance sector has attracted few institutional investors. IFC, Nordfund, Swedfund and EFK are the few institutions that have invested in programs that have had a direct and/or indirect impact on the country's housing and housing finance sector. All the investors are DFIs, with the exception of UN-Habitat, a keen social impact investor. UN-Habitat, has for example, provided homes for refugees and returnees since 2006. The organization has constructed over 600 homes in Juba and accommodated close to 3 600 South Sudanese in decent housing units. This is the only known-of social housing program in the country.

Investment Activity in Housing Industry

This sections analyses the different investment tools that have a direct and indirect impact on the housing and housing finance sector in South Sudan, their investment horizon and the period of investment.

Top Performing Investment Tools

Loans (lines of credit) were the only investment tool used by Institutional Investors, in South Sudan's housing market. In 2012, IFC intermediated about US$ 200 million through Cooperative bank and Equity bank, for on-lending to SMEs (50% of whom are engaged in the housing sector) and growing the two banks' mortgage portfolios. South Sudan is a net importer, just like several countries in the region. The loans from the IFC, through Cooperative Bank and Equity Banks enabled the above SMEs to import construction materials to support the housing construction sector.

UN-Habitat has been engaged in South Sudan since 2006. UN-Habitat has 2 ongoing projects valued at approximately US$6.5m. UN-Habitat is working in close cooperation with the Ministry of Land, Housing and Physical Planning under a MoU signed in March 2012. Cordaid is an active investor in South Sudan's two vibrant MFIs namely; Rural Finance Initiative (RUFI) and Finance South Sudan Ltd (FSSL). Cordaid invested about €294,650 in Technical Assistance to the MFIs in the design of affordable housing micro finance products and also enhance the MFIs capacity in underwriting informal income.

Investment Portfolio, Activity/Tool, Horizon and Period (Timeframe)

The table below summaries investment portfolio, activity/tool, horizon and timelines committed by institutional investors in Tanzania's housing and housing finance sectors.

: Institutional investor's actual purpose along the housing and housing finance value chain

Institutional Investor	Funds Invested and Intermediary	Amount RWF	Purpose	Horizon
IFC	US$205 million invested in Equity bank and Co-operative bank	On –lending to SMEs and housing finance.	10 years	Over 30 years
Nordfund and Swedfund	US$ 90 million invested in an Equity Fund (Kinyeti Venture Capital)	Construction loans, Support to SMEs and Technical Assistance.	20 years	Over 20 years
EKF	DKK 2 million	Working capital guarantee to SMEs	5 years	Over 2 years, renewable
UNDP, Canada (DFAIT/START), UNHCR, Japan, UN Mission in Sudan (UNMIS)	US$6.5 million invested through UN Habitat	Construction of affordable housing units to refugees	Open (humanitarian Assistance)	Over 8 years
Cordaid	US$ 294,650 invested through FSSL and RUFI	Technical support through capacity building to enable the MFIs to effectively execute their mandate.	10 years	Up to 20 years

Source: compiled by Consultant from various online sources

Impact of Investment on Housing Industry

Breadth and Depth of Investments

Mortgages

From the table below, the total portfolio that has been directly invested in the residential housing and housing finance sector was estimated US$1.67million, by the end of Q1 of 2017. The number of housing finance loans generated from this portfolio was estimated at 789, in the same period. This represents LESS than 5% of individuals in formal employment. This clearly indicates that the breadth and depth of institutional investments has significantly diminished due to ongoing economic turmoil and insecurity that has eroded investor confidence in South Sudan housing sector.

Characteristics of the Housing Finance Market

Bank	KCB	Equity	Charter One	Ivory	EDEN	FSSL
FSSL	Construction, Home Improvement	Construction, Home Improvement	Home Improvement	Construction, Home Improvement	Home Improvement & Construction	Home Improvement
Portfolio Size ('000) USD	$749,175	$580,645	$114.773	$,683,400	$300,000	$47,600
N0. of HF Loans	310	140	56	93	130	60
Average Loan Size (USD)	20,000	20,000	15,000	5,000	780	500
Max Loan Size	300,000	200,000	50,000	25,000	10,000	3,000
Loan Term	5 years	5 years	2yrs	2 years	1 year	1 year
Pricing	22%	22%	24%	24%	22%	23%
Implied Monthly Income	US$ 1,400	US$ 1,400	US$ 2,000	US$ 700	-	-

Source: Compiled by Consultant using data from the main providers of mortgage

Property Developments (Housing Units)

From the table below, the property developers were only able to reduce the annual housing requirement by about 1,090 units, in the period 2014 to 2016. In 2017, the forecasts suggest a grim picture – only 260 units might be delivered, maintaining the annual housing requirement at slightly above USD$ 220,000.

Challenges impeding deepening and broadening of the investment landscape

Major housing intermediaries of institutional investments have scaled down operations and also suspended issuing of loans or any long term financing, due to prevailing economic turmoil. Equity bank closed 7 of its 12 branches in South Sudan due to economic meltdown where the business was reportedly operating in tough conditions, recording net interest loss of US$5.5 million and a loss before tax of US$ 5.3 million. The devaluation of the South Sudan Currency caused the bank to write off a loss of US$58.14 million). Eden commercial bank reported having extended housing loans amounting to US$ 6 million and only managed to recover US$ 2 million.

Major institutional investors such as IFC are not continuing investment in South Sudan's housing finance sector. IFC might divert (through a sister agency) its funds to social development initiatives, given the humanitarian crisis that is the focus of international financing. BRAC South Sudan have suspended the microfinance component and ventured into humanitarian initiatives following the outbreak of the civil war in December 2013. BRAC currently focuses on Health, livelihoods, education and less on poverty eradication that extended individual, group and SMEs micro loans, some of which were spent on housing development activities.

Commercial banks have a higher preference for government securities, than lending to the private sector. A 15-month oil production shutdown between January 2012 and April 2013 and the civil conflict that erupted in December 2013 (for two years) reduced fiscal revenues and depleted previously accumulated foreign exchange reserves, forcing the Government to control spending and incur domestic debt, by selling short-term securities. Commercial banks' portfolio in government securities increased from SSP1.1 billion in 2013, to SSP1.4 billion in 2015. Investing in government securities is less risky than lending to the private sector, particularly in view of lack of collateral acceptable to banks and the insecurity in the country.