Country Report

November 2017

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Centre for Affordable Housing Finance in Africa

UGANDA
LANDSCAPE OF INVESTMENT

BACKGROUND

The report presents and in-depth analysis of the landscape of investment in Kenya. 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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PROFILES OF INVESTORS

The investment landscape in Uganda, constitutes both local and foreign institutional investors. Below is a description of the two categories of investors, including their institutional type, sources of capital, and other parameters that define their investment model.

Local Institutional Investors

Pension Sector and the Stock Market

The National Social Security Fund (NSSF) is the main source of long-term funds in the country. It collects Ugx 40 billion per month from clients. However, with the establishment of the Uganda Retirement Benefits Regulatory Authority Act (URBRA) 2011, access to this local pool of long-term funds has been restricted. The Act established URBRA as the regulatory authority to govern activities of Pension Sector players including determining the classes of investments for pension funds. URBA excludes direct loans to commercial banks and other institutions. Before this period, NSSF had invested heavily in loans to commercial banks and the new restrictions present a serious threat to the long-term funding required by commercial banks in the issuance of mortgages.

The objective of the legislation was to protect pension member contributions from being invested in highly risk assets. Pension and provident funds are now restricted to investments in fixed deposits, treasury bills and bonds, corporate paper and listed securities within the East African region. The fund is therefore legally confined to investments in these classes and cannot make direct loans to commercial banks, unless the banks issue marketable instruments such as corporate bonds.

Summary of NSSF's Long and Short-term Investments

Long-term Investments by NSSF to commercial Banks (2009)			
Commercial Bank	**Year and purpose**	**Funds (Value)**	**Terms for Funds**
Housing Finance Bank (HFB) Uganda Mortgage Portfolio/Investment (2015) – UGX 261.9 Billion	Funding Agreement with NSSF to finance HFB's mortgage business (2011)	UGX 25 Billion	• Tenor of 15 years • Grace period – not indicated • 11.5% interest rate per annum payable on a quarterly basis
	Funding Agreement with NSSF to finance HFB's mortgage business (2009)	UGX 20 Billion	• Tenor of 10 years • Grace period of 2 years • 13.1% interest rate per
DCFU Bank Mortgage Portfolio/Investment (2015) – UGX 12.8 Billion	Funding Agreement with NSSF to finance DFCU's mortgage business (2009)	UGX 15 billion	• Loan tenure of 10 years, with a 12 months grace period, accruing only interest • Principal on the loan facility to be repaid in 18 semi-annual instalments • UGX 7.5 billion at a fixed interest rate of 13.5 percent per annum.50% at a variable rate, based on a recently auctioned 182 days Treasury bill yield, with a spread of 1.75 percent per annum
Long-term Investments by NSSF to commercial Banks (2009)			
Commercial Bank	**Year and purpose**	**Funds (Value)**	**Terms for Funds**
DCFU Bank Short-term Investments	Funding Agreement with NSSF to finance DFCU's short-term investments (2014)	UGX 28 billion	• 10 billion at 13% for 3 months • 4 billion at 13% for 1 month • 178 million at 12% for 1 month • 822 million at 12% for 1 month • 6 billion at 13.5% for 3 months

Source: Annual Reports (2016) and Interviews with Key Informants

Pension Funds can be tapped into through the Issuance of Corporate Bonds

AFDB and HFB signed an agreement wherein the AFDB would provide local currency funding to HFB to support housing sector developments. Given that AFDB holds only USD and therefore mostly advances loans in that currency, a corporate bond in UGX was issued by AFDB and listed on Uganda Securities Exchange. This would then enable NSSF to fully subscribe to the bond under the requirements of the new URBRA Act. Total amount of the bond is UGX 100 billion of which UGX 25 billion has been drawn-down. The balance can be accessed when business need arises. Pricing of the bond is benchmarked on the two year government bond, discounted by a margin due to the fact that AFDB is a triple A rated institution compared to the government of Uganda. An arrangement margin of 365 basis points is then added on the discounted price of the Treasury bill rate. The performance of this facility is largely pegged to the performance of the borrowing bank. Both lender and borrower do not suffer currency risk since the facility is repaid in UGX to the Fund that is resident in Uganda. To AFDB, this was the second local currency transaction structured for a client after a successful attempt to issue on in Malawi.

A new opportunity related to the URBA regulations is the provision for contributing pension and provident fund members contributing members of pension and provident funds, to use part of their contributions as a collateral when applying for a mortgage. This provision is likely to encourage an upsurge in demand for mortgages since up to 30 percent of contributions can be used for this purpose. As a result, commercial banks will require new sources of liquidity to meet this increase in mortgage demand.

Commercial Banks

Most Ugandan banks identify 15 percent of all deposits as "core" deposits, considered sufficiently stable to intermediate into very long term and illiquid assets. According to commercial bank deposits, estimated at about Ugx 8.5 trillion at the end of 2016, a 15 percent ratio would translate to about Ugx 1,275 billion in core deposits. However, against a funding need of Ugx 7,200billion, the available core deposits only represent 17.7 percent of the total funding gap. The funding gap has been addressed with a mix of local and foreign funds, as discussed below. However, this funding is often sources at terms that are generally unfavourable to low and middle-income households wishing to access mortgage finance.

Foreign Institutional Investors

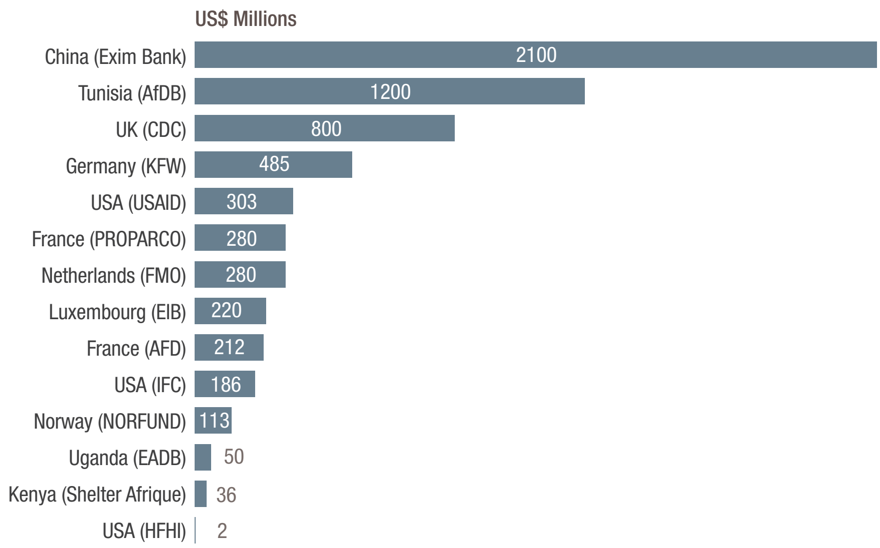
Overview

Uganda is home to 14 DFIs, collectively, mobilizing US$ 6.3 billion in the period 2000 to 2017, to fund multi-sectoral programs. From the figure below, China (through Exim Bank– US$ 2.1 billion) is home to the biggest investor in Uganda, followed by Tunisia AfDB) – US$ 1.2 billion, the United Kingdom (CDC – US$ 800 million), Germany (KFW – US$ 485 million) and USA (USAID – US$ 303 million). 12 out of the 14 DFIs committed over US$ 100 million, in the period 2000 to 2017. Countries with the least source of investment were USA (HFHI – US$ 2 million), Kenya (Shelter Afrique – US$ 36 million) and Uganda (EADB – 50 million). The section below provides details on the investors' source of capital and other parameters that define their investment models.

Total Assets vs. Assets Allocated to Housing and Housing Finance Activities

In the last 18 years, about US$ 540 million or 9 percent of the total assets, has been invested in activities that directly impact the operational efficiency of the housing and housing finance value chain in Uganda. The biggest institutional investors are Exim Bank (US$ 150 million), PROPARCO (US$ 40 million), FMO (US$ 80 million), and the IFC (US$ 80 million), AfDB (US$ 45 million). HFHI and EADB were least investors (US$ 2 million and US$ 12 million respectively). The investors intermediated their funds through the seven major mortgage/housing finance providers in the country – DFCU, Stanbic Bank, Barclays Bank, Kenya Commercial Bank, Standard Chartered Bank, Housing Finance Bank (and its partner MFI – Stromme Foundation), and Centenary Bank .

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



Source: Institutional Investors' Annual Reports (2000 – 2020)

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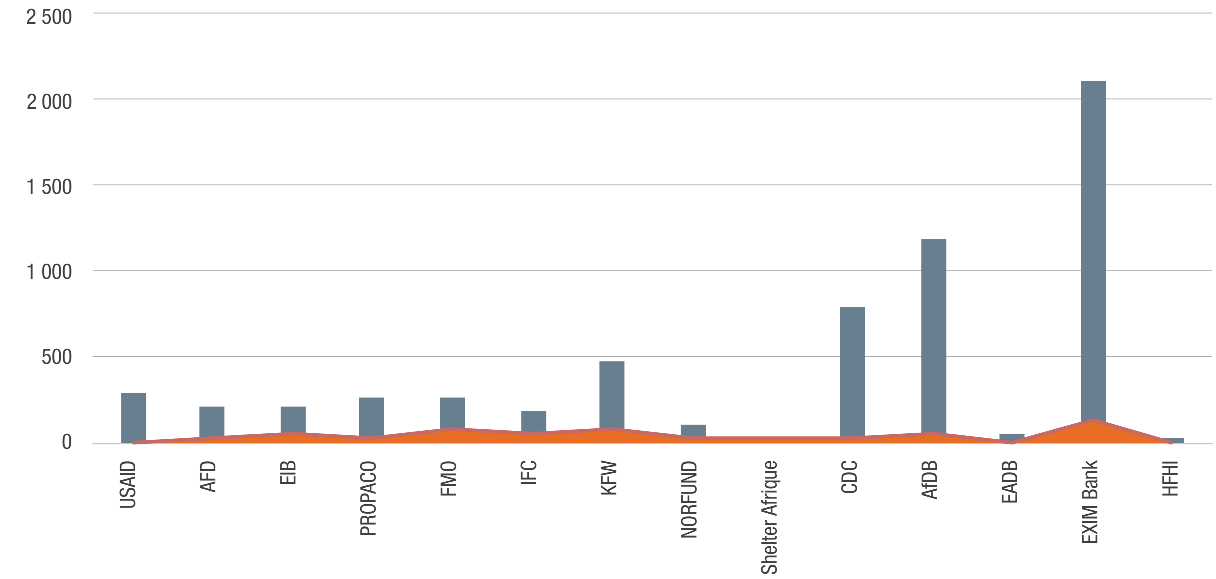
Landscapes of Investment

East African Community

Total Asset vs. Assets to Housing Allocation to Uganda (2000 - 2017)

US$ Millions



Asset Size (m) — Allocation to housing

Source: Institutional Investors' Annual Reports (2000 – 2020) and Consultant's Estimation

Investment Activity in Housing

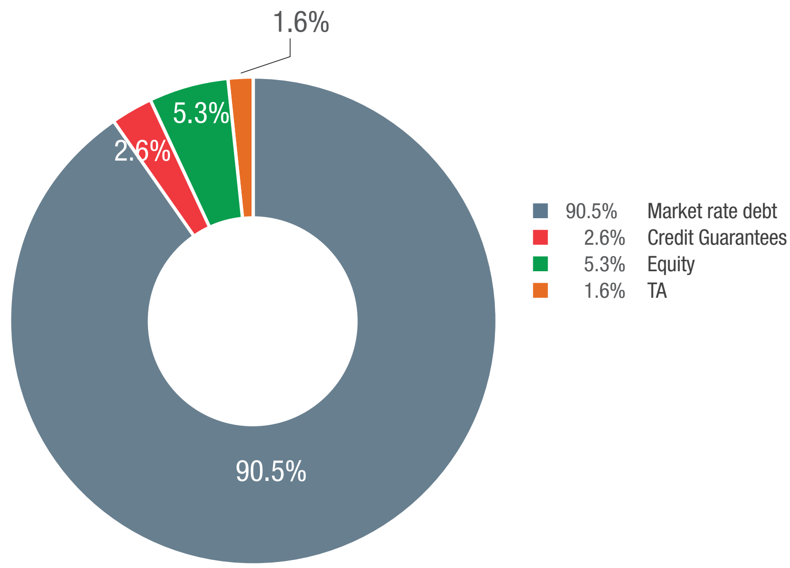
This section analyses the different investment tools targeting the housing and housing finance sector in Uganda, their investment horizon and the period of investment.

Top Performing Investment Tools

Similar to the investment context in Kenya and Rwanda, loans or lines of credit are the main investment instrument used by institutional investors, in Uganda's housing market. This makes up 95 percent of total investments. Indeed, with the exception of EIB, HFH and USAID, all the other institutional investors offered lines of credit (funds) to commercial banks and micro-finance institutions to extend their housing finance portfolios.

Top Performing Investment Tools for Uganda's Housing Market

Percentage



Source: Annual Reports of Institutional Investors

There has generally been a low level of diversity in the types of products offered to investors. There has also been a lack of innovation in the designing of products aimed at narrowing the affordability gap. For example, none of the listed investors are linked to subsidization programmes for reducing mortgage costs. This is a priority as existing housing finance packages continue to exclude individuals earning less than UGX 1.5 million (USD 430) per month.

Among the 14 institutional investors that have targeted investments in Uganda's housing and housing finance sector, USAID is the only institution that invested in a credit guarantee and enhancement scheme. USAID supported two banks (Centenary Bank and Ecobank) through credit guarantees and technical assistance to enhance access to credit to private health providers, particularly in the under-served rural areas. One of the needs identified by USAID and confirmed by the results of the two banks' lending programs was a strong demand for housing both for health facilities and among health workers. A major constraint to accessing mortgage finance and other housing finance products, among private health providers and health workers, was the lack the initial down payment (which stood at 30% of the mortgage value). Therefore down payment assistance was considered as part of the design of the credit guarantee.

The European Investment Bank (EIB) is providing Technical Assistance (TA) to banks, in addition to the provision of long-term funds to extend mortgage lending. For the past twelve years, EIB has invested about EUR 22 million in capacity building programs to boost underwriting and credit management skills of key staff in intermediary banks (DFCU, HFB, and Stanbic Bank). Looking beyond bank staff, EIB also equipped borrowing customers in the banks with business planning and management skills, to among others, boost their ability to efficiently run businesses and reduce the risk of loan defaults.

How USAID credit guarantee worked?

The credit enhancement and guarantee scheme, launched at Centenary Bank, in 2012, was able to relax the requirements for accessing housing finance loans and also lengthen loan terms from 3 to 5 years. The scheme, not only guaranteed against the non-performance of the loans (at a ratio of 60:40), but it was also used to help customers scale up the value of their collateral, such that they could access housing finance loans, at the terms at which they were offered by the bank. To illustrate, a customer who sought a loan of UGX 80 million, had collateral of UGX 50 million. And yet, by regulation, the collateral had to be in excess of the loan amount, if the customer were to access the loan. To help this customer access a loan of UGX 80 million, Centenary Bank used the USAID credit enhancement scheme to raise the value of its collateral to UGX 100 million, such that it could access the loan of UGX 80 million. On top of the monthly loan repayments, the customer was charged interest for utilization of the scheme, for the top-up.

By the end of 2013, Centenary Bank had issued 38 loans worth US $1.27 million. Of the 38 loans issued, 18 (47%) – worth US $ 344,000 – were distributed to businesses located outside the Central Region. The majority of the loans were drawn for construction and expansion of housing facilities at health facilities, enabling proprietors of health facilities to leverage their existing collateral requirements, and lengthen the loan terms from 3 to 5 years.

Source: Centenary Bank; 2014

Since 2014, Housing Finance Bank, with support from EIB, has been enhancing terms of engagement with Stromme Foundation to meet the growing needs of microfinance loans for the housing and housing finance sector. Under this deal, microfinance institutions are expected to conduct detailed analysis on the market need as well as detailed off-take strategies that identify borrowers eligible for funding under the facility. The bank then advances funds whilst monitoring the portfolio of the institution. As is the case with the investor-bank arrangement, the credit risk is entirely borne by the microfinance institution.

Given that Stromme offers loans to microfinance institutions, the funds will be on-lent to other microfinance institutions to build their capacity and extend their portfolio for issuing housing loans. Currently, Stromme Foundation is working with the following microfinance institutions;

- BRAC, Opportunity Uganda,
- Letshego, and
- Finance Trust Bank

Through this wider network, microfinance housing loans have been accessible to over 830 households through accounts with partner microfinance institutions. The tenor is either medium-term, suitable for moderate income groups, or shorter (1 – 3 years). Repeated loans are offered to accommodate incremental house design. The average loan size is about Ugx 1,800,000 for home development or improvement, disbursed incrementally. Additional funds are availed after full repayment of the previous facility. Stromme accesses funds from HFB at an interest rate of 10 – 15 percent for on-lending to other institutions at an average rate of 20 percent. EIB has invested EUR 2 million in the project.

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

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

Investment Portfolio, Activity/Tool, Horizon and Timelines in Uganda's Housing Market

Investor	Allocation to Housing (Millions USD)	Investment Activity/Tool	Horizon (Years)	Period (Years)
USAID	15	Credit guarantee for the housing sector	10+	2002 - 2016
AFD	20	Term loans to finance the mortgage loan book	10	2002 - 2016
EIB	25	A line of credit available to a pool of banks for drawing down towards eligible projects. For the Housing Sector, effect was to serviced apartments as qualifying projects	10	2005 to 2017
PROPACO	40	Lines of credit to private sector projects and quasi-government agencies, including housing	10+	2002 - 2016
FMO	80	Credit lines for financing home loans and trade through intermediary financial institutions	7	2005 to 2017
IFC	60	Credit line for commercial banks and co-financing of large development projects (some in housing)	10	2001 - 2017
KFW	22	Technical Assistance and credit lines.	15+	2004 - 2017
NORFUND	16	Long-term funds through a mix of debt and equity holdings in financial institutions.	15+	1997 - 2017
Shelter Afrique	36	Lines of credit for funding the real estate developments	10	2007 - 2017
CDC	25	DFCU - USD 15.1 million in equity to finance long term projects and added an additional USD 10M as a subordinated loan to further deepen the long term financing agenda which caters for the housing projects	10+	2000 - 2017
AfDB	45	Mortgage and other term loans to housing industry	10+	2002 to 2017
EADB	12	Lines of credit for mortgages and developer finance	10	2001 - 2017
EXIM Bank	150		10+	2002 - 2017
HFHI	2	Wholesale lending through the Housing Finance Microfinance Partnership programme with MFIs	5	
NSSF	30	Term loans of up to 10 years to finance the mortgage loan book		

Impact of Investments on Uganda's Housing Industry

The Breadth and Depth of Housing and Housing Finance Products

Mortgages

From the table below, the total portfolio that has been directly invested in the residential housing and housing finance sector, was estimated US$ 198.7 million, by the end of 1st quarter of 2017. The number of housing finance loans generated from this portfolio was estimated at slightly less than 5,000, in the same period. This represents only 1 percent of individuals in formal employment. This clearly indicates that the breadth and depth of institutional investments has been significantly shallow, and indeed, calls for more innovation in which long-term funds are sourced and utilized to broaden their impact, particularly among modest income earners.

Characteristics of the Housing Finance Market

Bank	DFCU	Stanbic	Barclays	KCB	Stan. Chat.	HFB
HF Product	P, CO, H-I, ER	P, CO, H-I, ER	P, CO, H-I, ER	P, CO, H-I, ER	P, CO, H-I, ER	P, CO, H-I, ER
Portfolio Size ('000) USD	19,807	40,715	35,426	11,279	15,680	75,800
NO. of HF Loans	430	650	450	280	580	2,500
Average Loan Size (USD)	45,000	62,000	78,000	40,000	60,000	30,000
Max Loan Size	Up to $1.5 Million	Up to UGX. 2.5 Billion	Up to UGX 1 Billion	Up to UGX. 800 Million	Up to $1.5 Million or	Up to UGX 1 Billion
Loan Term	Up to 10 years for $ and 15 years for UGX	Up to 20 years	Up to 25 years	Up to 25 years	Maximum 25 years	Up to 10 years for $ and 20 years for UGX
Pricing	22%	17.50%	18% - 22%	23%	17.5%	17.5%
Implied Monthly Income	UGX 1.8 million	UGX 1.9 million	UGX 2.4 million	UGX. 1.6 million	UGX 1.8 million	UGX 1 million

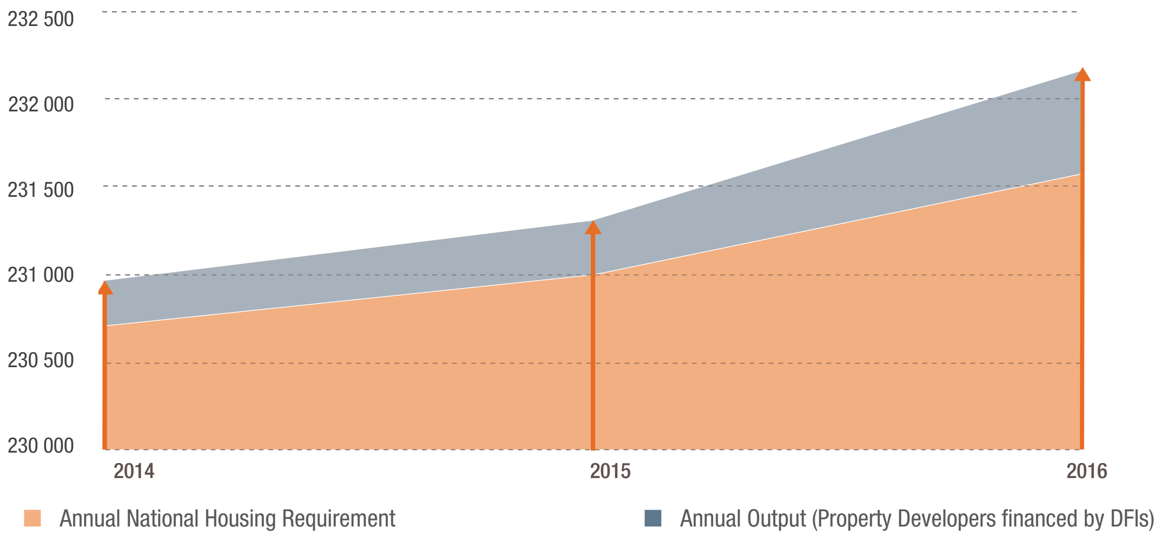
Source: Banks Annual Reports and KIIs

Key: P – P; CO –Construction, ER - Equity Release, Equity Release - ER

Property Developments (Housing Units)

Property developers were only able to reduce the annual housing requirement by about 1,000 units, in the period 2014 to 2016. In 2017, the forecasts suggest a grim picture – only 770 units will be delivered, maintaining the annual housing requirement at above 200,000.

Output vs. Annual Housing Requirement in Kampala



At the above rate, it is certain that the country's annual housing requirement will continue to prevail, and yet, the population is growing at an annual rate of 3.3 percent. This calls for urgent and innovative investment approaches that will have a significant impact on the housing backlog in the short-term. The industry clearly lacks large scale investors/developers, despite the huge potential.

Challenges/Opportunities to deepening and broadening the Investment Landscape

The average investment horizon is about 10 years. Though, NSSF offered funds for 15 years (the longest horizon), reflecting the long-term nature of its liabilities - retirement products. The average 10-year horizon is less than the average tenor for mortgages on the market (the tenor for mortgages provided by DFCU and Stanbic Bank is 20 years, HFB is 15 years while Barclays and Standard Chartered is 25 years). Funding risks have therefore arisen out of the need to match the liability and asset period. Also, this created an urgent need among commercial banks to secure additional funding sources to cover the maturity gap of the facilities, much of which are drawn from customer deposits.

In practice, EIB sourced firms in the European Union that were competent in TA, and also paid for consultancy costs for the delivery of the TA program. The firms (including the German based firm-Integration) then sub-contracted local consultancy firms to implement TA activities. Implementation of the TA program was based on a needs-based approach for participating intermediary institutions. The impact of EIB's intervention/s has been in diverse fields, including (i) Training of credit officers in underwriting skills, (ii) Training of Bank relationship managers to better manage client relationships, (iii) Training of senior bank executives involved in the credit cycle/approval process and (iv) Training of bank clients/SME owners and managers in business planning and credit management. An "oversight" in the design of the above EIB initiative has been the lack of customization for capacity building programs to the unique requirements of the housing sector. Given the fact that EIB's main focus is on SMEs, the bulk of training is tailored to meet underwriting skills required for SMEs in general, rarely addressing unique the unique needs of SMEs operating in the housing sector. There is a major need for TA packages to be tailored to sectoral needs, including housing.