The East African Community

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Overview[1]

The East African Community (EAC) is a regional intergovernmental organisation of six states: Burundi, Kenya, Rwanda, South Sudan, United Republic of Tanzania,[2] and Uganda, with its headquarters in Arusha, Tanzania. The EAC is home to 172 million citizens of which over 22 percent is urban population and it had a combined GDP of US$172 billion in 2017.[3]

According to the East Africa Economic Outlook, real GDP in East Africa grew by approximately 5.7 percent in 2018, the highest among African regions.[4] Economic growth is projected to remain strong, at 5.9 percent in 2019 and 6.1 percent in 2020.[5] Countries with the highest economic growth include Rwanda (7.2 percent), Tanzania (6.7 percent) and Kenya (5.9 percent). In Rwanda, real GDP growth has been driven by industry and services. The service sector has also been the main driver of growth in Tanzania and Kenya, followed by the agricultural sector as the main growth driver from the supply side. On the demand side, consumption has been the main driver of economic growth across the EAC. The region continues to face various downside risks that could undermine economic growth and development prospects. Major risks are agriculture's vulnerability to the vagaries of nature, heavy reliance on primary commodity exports, and rising oil prices in oil-importing countries. State fragility – with its adverse implications for security and economic progress – is a risk for Burundi and South Sudan, whose growth rates were 1.4 and 3.8 respectively.

The EAC has made progress in regional integration. The EAC's ratification of the protocol for monetary union is one indicator of such progress. Following the ratification of the Common Market Protocol, the EAC Secretariat established the EAC Financial Sector Development and Regionalisation Project (EAC-FSDRP). The project's objective is to establish a foundation for financial sector integration among the EAC countries.

Access to finance

The commercial banking industry in Kenya is the largest within the EAC with 43 commercial banks and two mortgage finance institutions. The Tanzania Banking system has 26 commercial banks and there are 21 commercial banks in Uganda. The Rwanda banking system has 11 commercial banks, four microfinance banks, one development bank and one cooperative bank. The Burundi banking industry comprises seven commercial banks, one development bank and one housing fund. South Sudan has 30 commercial banks and among these are seven foreign banks with headquarters in Kenya, Ethiopia and Qatar. Local banks are affiliated with politically connected individuals close to the government of South Sudan.[6] In all six countries the financial sector has other mid-sized financial institutions classified under tier two and tier three categories.[7]

Cross-border expansion of banking in the region started in the 2000's with Kenyan banks setting up in other EAC countries. A total of 11 multinational and Kenyan-owned banks are involved in cross-border banking business in the EAC. In all EAC countries commercial banks established national umbrella bodies, known as Bankers' Associations, to promote member banks' interests.

While access to formal financial services has been increasing in other EAC countries, Burundi and South Sudan lag, with 12.5 percent of the Burundi's adult population and only 1 percent of South Sudan's adult population having access. The financial sector in Burundi continues to suffer from inadequate supply of long-term finance to support mortgage lending and a high-risk environment that translates into high levels of non-performing loans. At an average rate of 17 percent,[8] the ratio of non-performing loans to total loans in Burundi is above the EAC's regional average of 7 percent for 2018. South Sudanese tend to use informal groups[9] due to constrained access to formal financial services. Homeowners rely on savings and other sources of financing as well as mortgage loans and commercial bank loans.

Kenya's banks are still the main providers of mortgage financing with 77.5 percent of all mortgage lending originating from only six banks out of 43 financial institutions in the country. Most financial institutions are reluctant to expand their mortgage portfolios because limited access to capital markets and collateral requirements make mortgages exceedingly expensive. This explains the number of registered mortgage loans standing at only 26 187 in Kenya as of December 2017.

In Uganda, the Housing Finance Bank (HFB) leads the mortgage financing market segment with approximately 55 percent of the total mortgage portfolio in the country.[10] As at June 2018, real estate continued to lead with 20.6[11] percent of total private sector credit allocation. Credit to the housing real estate sector recorded an annual growth of 10.1 percent in March 2019 compared to 7.5 percent in March 2018. This notable rise in credit in the housing real estate sector is, in part, attributed to the recovery in property prices from July to December 2018.

Rwanda's banking loan portfolio remains concentrated in the trade and mortgage sectors with a combined share of 50.3 percent as of June 2019.[12] Due to high concentration in these sectors, the banking sector remains exposed to risks. These risks include house price fluctuations and low occupancy rates of rental properties.

Affordability

Affordability of housing in the EAC countries is still a major challenge for most households due to the high cost both of completed housing units and of borrowing for housing finance. Affordable housing options are scarce in Kenya. The average price for an apartment in satellite towns,[13] where many lower middle income families live, stands at approximately KSh3.1 million (US$30 178) for a 40m^2 1-bedroom unit.[14] This is far more than most Kenyans can afford.

In Kampala, Uganda's capital, only approximately 20 percent[15] of households can afford to own a house. On average, a newly completed 2-bedroom house sells for approximately Ush50 million (US$ 13 488), which is beyond the reach of most Ugandans. Most lenders only offer financing for up to 80 percent for residential mortgages, and the bulk of prospective home owners cannot raise the remaining 20 percent to qualify for home financing. Additionally, borrowing interest rates have remained high at 17 percent a year across most lenders.

In Kigali, Rwanda's capital, it is estimated that households in the middle income quintile could only afford a mortgage costing a maximum of FRw4.0 million (US$4 390.77) at a 17.3 percent interest rate and a 15-year mortgage term.[16] However, according to the Rwanda Affordable Housing Authority (RHA), the price of the cheapest 2-bedroom house is FRw18 million (US$19 759) which is not affordable for the majority of Rwandans.

Similarly, in South Sudan the exorbitant lending rate of 24 percent and a 55 percent down payment has made it difficult for a median income household to afford mortgage financing. According to the 2018 Canback Global Income Distribution Database (C-GIDD), most urban households earn annual incomes between SS£793 314.6 (US$5 000) and SS£1 269 303.3 (US$8 000). This income level makes it difficult for the average household to afford the cheapest formal housing unit in urban areas which is priced at SS£12 645 600 (US$80 000) for 90m^2.

Burundi's real estate sector is no different from the other EAC countries. Although the poverty rate based on BFu3 525 (US$1.9) a day fell from 74.7 percent in 2017 to 71.8 percent[17] in 2018, affording decent housing is still difficult. Further, financing options for housing-related investments are unaffordable for both investors and prospective homeowners. Financial institutions have kept interest rates high, averaging 15.98 percent, making it hard for most citizens with modest incomes to afford credit.

Despite the many obstacles, governments in the EAC countries and other stakeholders, i.e. donors and private sector, continue to try to increase access to finance for home buyers. In Kenya, the formation of the Kenya Mortgage Refinancing Company (KMRC) will promote affordable housing by enabling long-term loans at attractive market rates. The Government of Rwanda (GoR) has pioneered the development of various affordable housing development projects and recently planned to implement a Green City Concept on a 620ha site in Kigali. This development is expected to start in January 2020.

In Uganda, banks such as the Housing Finance Bank and Bank of Africa have introduced 100 percent financing for residential mortgages, under which customers without down payments are fully financed to acquire residential property. The Government of Uganda has focused on delivering 101 housing units to families evacuated from the landslide-prone Mount Elgon region in the East of the country. Two-bedroom housing units were constructed by the national army and police under the first phase, completed in March 2019. Other phases are planned to deliver 1 300 houses for occupation by 6 300 people affected by landslides in the region.

Housing supply

Rapid urbanisation and lack of urban planning have resulted in enormous housing deficits. Owning a decent house is still an unattainable goal for many households in the EAC countries. Major roadblocks to efforts to alleviate the housing crisis in the EAC countries include the lack of affordable housing finance, the prohibitive cost of urban land, weak tenure security, rising construction costs and the prevalence of slums.[18]

Kenya has a housing deficit of nearly 2 million, growing at a rate of approximately 200 000 units a year. Informal settlements are on the rise in urban areas, with 61 percent of the urban population living in slums and overcrowded homes.[19] The World Bank in 2017 estimated that 83 percent of the existing housing supply is for the upper middle income and high income population while, only 2 percent is for the low income population.[20] However, the housing sector recorded an increase in the number of completed private residential and non-residential buildings in Nairobi City Council (NCC), from 11 902 in 2017 to 12 304 in 2018. In addition, the affordable housing initiative has gained momentum through Public Private Partnerships (PPPs), private developers' partnerships and state-funded projects. Examples include: (i) the New Ngara project targeting 1 500 units (ii) the 1 200-unit Unity Homes project within Tatu City in Kiambu (iii) the 2 720-unit Edermann Property project in Ngara and (iv) the 8 888-unit Mavoko project to be built by the United Nations Habitat Cooperative Society, which is in the pre-development stage. The Kenyan government plans to launch a low-cost housing project to build 30 000 housing units in the east of Nairobi by 2020.

A recent housing survey by the Uganda Bureau of Statistics revealed that Uganda has a housing deficit of approximately 1.7 million housing units, expected to reach 3 million units in 2030.[21] It is reported that Kampala alone has a housing deficit of 550 000 units. Largely to blame are a rapid urbanisation rate of 5.2 percent and a high population growth rate of 3.2 percent a year. To ease access to affordable housing, the Uganda government partnered with the private sector to improve infrastructure such as water, sewerage, electricity and roads. With the emergence of private real estate developers, housing and mortgage sectors are growing quickly and many private developers have partnered with commercial banks to offer mortgages to citizens who cannot afford outright purchases. In October 2018, HFB partnered with Habitat for Humanity and the Buganda Kingdom to champion the "Decent Living Campaign". This initiative aims to improve lives through decent shelter, better livelihoods and access to safe and clean water, with an overall goal of supporting close to 400 individuals by 2030.

An estimated 721 000 new homes are needed in Kigali (Rwanda) by 2032, almost double the 367 000 homes needed in 2018.[22] The government has been instrumental in supporting initiatives geared towards affordable housing in Rwanda.

Regional Data Challenges

Information on housing finance can be obtained from multiple data sources in Kenya, Uganda and Rwanda. For these three countries various organisations publish reports on housing and access to finance regularly. Other reports can be sourced from organisations such central banks, national statistics bureaux, the World Bank and similar bodies. However, in Burundi information on property markets and housing supply is not readily available, making it difficult to track development in the housing sector. Least up-to-date information is available in South Sudan, mainly due to the unstable political economy. Available reports were as old as 2011 and do not give a true picture of trends in affordable housing finance.

Key examples include the introduction of a uniform land tenure regime as well as the provision of sustainable land through the National Land Use and Development Master Plan (NLUMP). In June 2019 a joint venture between Development Bank of Rwanda (BRD) and Shelter Afrique announced the construction of 2 000 affordable housing units in Nyamirambo Sector (Nyarugenge District) with adherence to the City of Kigali master plan and the affordable housing program under the National Housing Policy.[23] The project targets approximately 2 800 affordable houses on a 42ha piece of land and it is expected to accommodate 14 000 people as well as create hundreds of temporary and permanent jobs.

South Sudan has 2.6 million urban households and 10.6 million rural households. Most housing units in the country are owner occupied with only 2 to 3 percent rented out. The country estimates a backlog of 4 million units, which calls for urgent additions to the country's housing stock. A regional study on changes in housing in Sub-Saharan Africa shows that the quality of South Sudan's housing improved the least from 2000 to 2015.[24] To better the housing situation, the Government of South Sudan is working on a masterplan community project in the Central Equatorial State where approximately 9 000 housing units are to be built with cash purchase and lease-to-own options. Similarly, the United Nations Human Settlements Programme (UN-Habitat) built 5 000 housing units for returnees and refugees.

The supply of housing units in Burundi is small because of the availability of participants on the housing supply side. The country has failed to attract large-scale property developers, due to its fragile political state, low level of economic development and high incidence of poverty. With the recent return to political stability and renewed hope for economic development, the city of Bujumbura is beginning to experience a supply of new houses, largely from a few individual investors. At the same time, the influx of returnee refugees is already exerting pressure on the housing situation in Burundi.

The EAC countries' housing supply shortage is mainly constrained by the lack of a more permanent access to long-term financing, which is now made available on an ad hoc basis by international development banks. Other reasons include developers seeking higher returns from upmarket developments targeting wealthier buyers who have greater disposable income.

Property markets

The last 20 years of real estate boom in the EAC countries changed the building landscape and inventory. In most EAC countries the first years of heavy real estate investment concentrated primarily on high-end assets in the hope of garnering higher margins and returns. Nevertheless, an opportunity exists in mid-market areas compared to high-market areas. The 2019 World Bank Doing Business report ranked the EAC at an average of 119 out of 190 in the ease of doing business category. Rwanda and Kenya are the only regional economies that have recorded improvement in the Ease of Doing Business index in two consecutive years, 2018 and 2019. Rwanda was ranked 29 and Kenya 61 this year. Tanzania ranked 144, Uganda 127, and South Sudan 185. The cost of registering property in the EAC is 5.3 percent of the total property value, lower than other regional trading blocs such as the Southern African Development Community (SADC) at 6.8 percent and Middle East and North Africa (MENA) at 5.7 percent.

The EAC ranks poorly on the number of procedures required to register property with an average of seven procedures. Uganda has the highest number of procedures at 10, while Rwanda has the least number of procedures at three. In Rwanda it takes seven days to register property and in the other EAC countries property registration takes approximately 23 to 67 days. However, the regional average to register property is 39.3 days, lower than the SADC average of 50.3 days.

Policy and regulation

A number of regulatory changes have affected housing and housing finance in the EAC region. In June 2019, Uganda's Parliament passed[25] the Landlord and Tenant Bill 2018 that seeks to regulate the relationship between landlords and tenants. This Bill contains several provisions on the rights and duties of landlords and tenants in rented commercial and residential premises. A key provision is the legal requirement to execute a contract for all rental transactions above Ush500 000 (US$135) with clear terms and conditions. The government has also moved to allocate funding in the 2019/2020 budget to facilitate the enactment of the Security Interest in Movable Property Act. This will further promote the use of movable assets as loan collateral.

In 2018 Kenya's National Housing Corporation (NHC) established the Affordable Housing Initiative as one of its Big Four pillars[26] to promote long-term economic development. The initiative is focused on delivering 500 000 housing units for the lower and middle income population segments by 2022.[27] These units will range between KSh0.6 million (US$5 841) and KSh3.0 million (US$29 205) aim to reduce the existing housing deficit. Furthermore, the National Housing Development Fund (NHDF) was established under the Housing Act 2018 with a mandate to raise funds through a housing levy. Employers are expected to match a 1.5 percent levy on employees' basic salaries up to KSh5 000 (US$48.7), and the total will be channelled into the fund.

In South Sudan, the Ministry of Land, Housing and Urban Development (MLHUD) has worked on inputs that will contribute to a housing policy in the future. While South Sudan's constitution makes mention of a "right to housing" in Article 34(1), there is neither political will nor significant budgetary allocation for a housing policy and its implementation. The approval of the Housing Finance Bank and the formation of the South Sudan Microfinance Development Facility (SSMDF) illustrates the extent of the government's ambition.

Burundi's housing and property transactions are governed under the 2008 National Urban Planning and Housing Policy. The policy provides the regulatory framework for managing water, environment, land and urban development. Yet, despite the existence this policy, enforcement of property rights and contracts is lacking. According to the World Bank, property rights and rule-based government policies are among the lowest in the world, with the country scoring a lowly two points out of six.[28]

The Government of Rwanda through the Ministry of Infrastructure has developed the Urbanisation and Rural Settlement Sector Strategic Plan 2018-2024. The Strategic Plan focuses on the following themes: (i) Integrated human settlement planning and coordination; (ii) City of Kigali, secondary cities and other potential towns developed to spur socio-economic growth; (iii) creation of liveable, well-serviced, connected, compact, green and productive urban and rural settlements with a cultural identity; (iv) access to social and affordable housing and (v) informal settlement upgrading.[29] The government is pioneering the development, expected to start in January 2020, of a Green City Concept on a 620ha site in Kigali. The city will have environmentally sustainable affordable housing, and integrated craft production centres. Two projects are being developed on two parts of the site: phase 1 - Cactus Green Park, a housing development with 410 houses on 13ha and phase 2 - a housing development on 125ha. Further phases will include commercial and office buildings.

Opportunities

Mortgage markets across the EAC are only likely to grow if they are affordable, which will not only increase access to adequate shelter, but can have a significant impact on economic development.

The uptick in housing finance in Rwanda has been partly a result of it being one of the most progressive enabling environments in Sub-Saharan Africa and partly because it has removed obstacles to obtaining land titles and enabled citizens to use them as collateral in lending transactions.

Uganda has immense market potential for housing delivery in the affordable market segment. With the widening gap in annual housing supply compared to the established demand, developers could find lucrative business in this segment. Additionally, stability in market lending interest rates has encouraged an upsurge in mortgage finance for the past two years. However, availability of low-cost finance could further raise the demand for mortgage finance.

South Sudan still faces and unstable political, which hinders the business environment. However, if this is resolved, an opportunity exists in strengthening nonconventional financial service providers to advance housing finance through alternative means. As Burundi progresses towards political stability, developing affordable housing is an inviting opportunity, along with initiatives to overcome financing challenges. Furthermore, the development and better capitalisation of Mortgage Liquidity Facilities (MLF) already present in Tanzania, could play a vital role in building domestic capital markets.

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6 Ferullo, M. (2018). The Sentry: Banking on war: Ending the abuse of South Sudan's banking sector by political elites and pushing for peace. https://thesentry.org/reports/banking-on-war/ (Accessed on 26 August 2019). Pg. 3.
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9 An informal savings group is a social organization formed to help community members save money for specific purposes (either individual or community level). The two most common examples are rotating savings and credit associations (ROSCAs) or accumulated savings and credit associations (ASCAs).
10 Other banks involved in housing related finance include Bank of Africa, Standard Chartered Bank, DFCU Bank, Stanbic Bank and Centenary Bank.
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