South Sudan Housing Finance Report

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SOUTH SUDAN

Exchange Rate: 1 US$ = "	2.68 (South Sudanese Pounds (SSP)[1]
Main Urban Centres	Juba (Capital City)
Population ^	8 260 490[2]
Population growth rate (2005-2010)^	2.8[3]
Urban population (% of total) 2009	17%
GDP per capita^	SSP 3,654 ($ 1,363)[4]
GDP growth rate (real, 2010)^	The country's GDP was expected to grow by 6% in 2011, increasing to 7.2% in 2012[5]
HDI (Global Ranking)+	
Unemployment rate^	30%[6]
Population less than US$2 per day°	over 80%[7]
Population below national poverty line^	50.60%[8]
Lending Interest Rate° (2009)	15-18%[9]
Deposit Interest Rate° (2009)	0
Mortgages % of GDP°	Not Available
Cost 50 kg bag cement (July 2011) US$	SSP 120[10]
Cost of standard sheet of corrugated sheet iron US$	SSP 135[11]
Price of the cheapest newly built house, by a formal developer (US$)	$ 45,000[12]
Smallest size of a formal house (m2)	75 sq. metres[13]

OVERVIEW OF THE POLITICAL ECONOMY

South Sudan is a fragile post conflict country and only recently gained independence on the 9th July 2011. The attainment of independence fulfils a major component of the Comprehensive Peace Agreement (CPA), which was signed in 2005, between the Government of Sudan and the Sudan People's Liberation Army (SPLA).

The signing of the CPA and subsequently, the adequate implementation of some of its provisions has played a great role in bringing to an end decades of conflict (1955-72, and 1983 - 2005), between the North and the South.

The effects of the conflict on the South have been severe and profound, to both the social and economic status of the country. Over the last two decades (1983 – 2005), there has been a marked neglect of infrastructure development, which has among others, discouraged the expansion and growth of key sectors of the economy. The institutional capacity of the public sector has literally been non-existent; standards compliance capacity is

[1] Source: http://www.fxcheck.net/foreign-exchange/sdg-to-usd-exchange-rate/
[2] Source: Statistical Yearbook for Southern Sudan (2010)
[3] Source: http://www.wvafrica.org/index.php?option=com_content&view=article&id=152&Itemid=169
[4] Source: National Bureau of Statistics; Government of South Sudan; 2011
[5] Source: http://www.sudantribune.com/South-Sudan-targets-6-per-cent,39144
[6] Source: http://www.migrationheritage.nsw.gov.au/exhibition/sudanesestories/life-in-southern-sudan/
[7] Source: www.unsudanig.org/.../MDGs%20in%20Southern%20Sudan
[8] Source: Poverty in Southern Sudan; Estimates from National Baseline Household Survey; 2009
[9] Source: M. Atil (2009) Access to Finance in South Sudan
[10] Source: Interview with Building Contractor in South Sudan
[11] Source: Interview with Building Contractor in South Sudan
[12] Source: http://www.newsouthsudan.com/south/detjuba.pdf
[13] Source: Interview with Building Contractor in South Sudan

minimal and non-existent in several States and firm-level productivity is below acceptable regional and international standards, and further undermined by shortages of skilled labour.

It is worth noting that the situation in South Sudan following the declaration of independence is in sharp contrast to the one that prevailed in the North (primarily in Khartoum) when the British troops departed in 1965 (E. Kameir; 2011). To illustrate, Sudan inherited from the colonial rule in 1956 a viable civil service, a worthy judiciary, a well-functioning railway network, the largest irrigated agricultural scheme in Africa, a well disciplined army and police force, and a reputable educational system up to tertiary level[14]. These institutions were in primarily in the North, however, leaving the South with very few such institutional assets at its independence, 46 years' later.

Still, South Sudan achieved a key milestone in its first five months of independence: the development of the Sudan Growth Development Plan (SSDP) 2011 – 2013. The Development Plan provides a roadmap for instituting capacities that will be essential for the achievement of the country's development goals during the period 2011-2013. Key priorities of the Growth Strategy include:

1. Extending public security and the rule of law throughout the country by transforming, professionalizing and expanding key security and judicial institutions;

2. Enabling economic growth and investment by establishing essential legal and regulatory frameworks, and expanding vital transport, communications and energy infrastructure;

3. Improving social welfare by expanding the population's access to basic education, health, water and sanitation services coordinated, regulated and provided by local institutions;

4. Building public administration that efficiently provides public goods and services to the population through the development and management of a qualified and professional public service, and establishing mechanisms to attract qualified South Sudanese, including from the Diaspora;

5. Establishing an accountable and transparent system of governance at national and local levels to effectively articulate national priorities, and manage national resources in an equitable and effective manner.

Adequate and successful realization of the above five priorities will greatly depend on good political and economic governance, based on transparency and a common vision of national unity.

SELECTED FACTS ABOUT THE MACRO-ECONOMY

South Sudan's economy is one of the weakest in the world. The economy is still fragile, and underdeveloped. Worse still, experience in macroeconomic management within the country is limited, largely because this responsibility was retained by the Government of Sudan, in Khartoum, as per the CPA provisions.[15]

Since independence, substantial efforts have been undertaken that will, in the short to medium term, allow for robust economic growth, and the establishment of adequate financial infrastructure. Among these has been the establishment of the Bank of South Sudan, which will be responsible for the formulation, conduct and implementation of the country's monetary policy.

[14] E. Kameir; 2011

[15] The Government of South Sudan does not have full autonomy when it comes to macroeconomic policies. To a large extent, Southern Sudan's macroeconomic situation is linked closely to and dependent on Sudan's overall macroeconomic developments and Khartoum policies. For example, the GOSS does not have control over the growth of money supply and credit, the change in monetary reserve requirements, or other monetary policy instruments (USAID; 2009 – South Sudan: Post Conflict Economic Recovery and Growth)

GDP Growth Rates

South Sudan has experienced uneven GDP growth during the last three years. Between 2008 and 2009, GDP growth receded by 14 percent, from SSP 28.505 billion (US $ 10.6 billion) to SSP 24.95 billion (US $ 9.3 billion). In 2010, there was a substantial recovery. GDP was estimated at SSP 30.5 billion ($ 11.4 billion), representing 25 percent growth increase from 2009 (South Sudan National Bureau of Statistics; 2011).

The oil sector is the largest contributor to GDP, both in terms of direct value-added to the economy as well as the associated investment boom and boost to the services industry. Oil exports accounted for 71 percent of the total GDP in 2010. The high reliance on oil has created a situation of volatile revenues and, due to the lack of buffer savings through the CPA period, government expenditure has been relatively unstable.

Current forecasts point to a peak in oil sector production; however, there is a strong likelihood that oil export revenues will decline over time. According to the International Monetary Fund (IMF), by 2018, known oil reserves in South Sudan will be close to exhaustion.

The economic policy dialogue is presently turning to the need for balanced growth and strengthening the non-oil sectors, which are key to sustainable growth and addressing the inequalities. Agricultural development is viewed as the engine of growth, which will not only allow South Sudan to diversify its economy away from oil dependence, in the medium term, but also to directly reduce poverty and food insecurity.

GDP per capita

GDP per capita in 2010 was SSP 3,654, ($ 1,363) down from SSP 3,541 ($ 1,321) in 2008[16]. A comparison with countries in the East African Region shows that South Sudan’s GDP per capita is higher than in its neighbours in the East African Region. In Ethiopia, the GDP per capita in 2010 was estimated at $ 350, Burundi - $ 189, Rwanda - $ 548, Kenya - $ 769, Uganda - $ 503, Democratic Republic of Congo - $ 169 and Central Africa Republic - $ 447.8[17].

Oil production explains why GDP per capita is higher in South Sudan than its neighbours in the East African Region, even though South Sudan has worse outcomes on other development indicators such as education and health. Just over half (50.6 percent) of the population live below the poverty line, with a gnawing gap in poverty levels between classes and within States. This means that one out of two South Sudanese do not have the necessary means to purchase the value of a minimum food and non-food bundle[18]. In the East African Region, the poverty levels are estimated at below 35 percent.

ACCESS TO FINANCE

Presently, there are eight banks that operate within the country. The largest is Kenya Commercial Bank (KCB), which intends to double its presence to 30 branches, covering 100,000 people by 2015[19]**.** Nile Commercial Bank, Buffalo Commercial Bank, Ivory Bank, Equity Bank, Commercial Bank of Ethiopia, Agricultural Bank of Sudan, and Mountains Trade and Development Bank also operate within the country.

The commercial banks’ lending portfolio is small, covering only a small percentage of the estimated market in the country (7 percent of approximately 6000 registered firms and less than 1 percent of gross revenue)[20]. Generally, lending in the country is inadequate, and can neither address the demand for large scale loans (for agricultural finance, and investment in the manufacturing and real estate sectors), nor demand for start-up

[16] Source: South Sudan National Bureau of Statistics; 2011
[17] Sourced from World Development Indicators; 2010
[18] Source: Southern Sudan Centre for Census Statistics and Evaluation; 2009
[19] Source: African Business Initiative; US Chamber of Commerce; September 2011
[20] Source: M. Atil (2009). Access to Finance in South Sudan

capital by local South Sudanese firms. In 2008, the majority of the loans (70 percent) were advanced to large firms in commerce, trade, and service sectors, as working capital. Only 30 percent of the loans issued in that year were to individuals, drawn to finance the purchase of vehicles and undertake home improvement developments. This lending trend consistently featured in 2009 and 2010.

Commercial banks are generally reluctant to lend, largely because of the structure of their deposits. The majority of the deposits are short-term (less than a month), and drawn upon regularly. Deposits on saving accounts are still few. Some banks have instituted measures to encourage customers to save more, by offering an interest rate of up to 1.75 percent on saving accounts. This rate is however low, by regional standards, and reflects the nascence of the banking industry in the country.

Generally, the saving culture in the country is poor, and the country has been labelled by several authors as a primordially cash economy, due to high ratio of costs to salary levels and a preference for informal or traditional saving methods.

Loan tenures are short term (3-6 months), and at high interest rates (15 – 18 percent per annum). Collateral for loans is in most cases not available, though, some banks have innovatively sought other forms of guarantees as security for the loan such as leasing (keeping the purchased asset in the name of the bank until complete repayment), direct payment by the employer or final purchaser of the good (arrangements where an external party pays the bank directly such as is the case for government procurements or salary loans).

According to the World Bank's Doing Business Report 2010, the only criterion used by banks in Juba to appraise their clients is the "KYC" rule: Know Your Customer. Generally, the lack of credit history is a major constraint to access to finance in South Sudan. Most companies were established recently (post CPA period) and few have a past credit record.

Further, banks rely on other customers who know the community to give information about prospective debtors. Loans are advanced based on personal connections, and not necessarily on the likelihood of repayment.

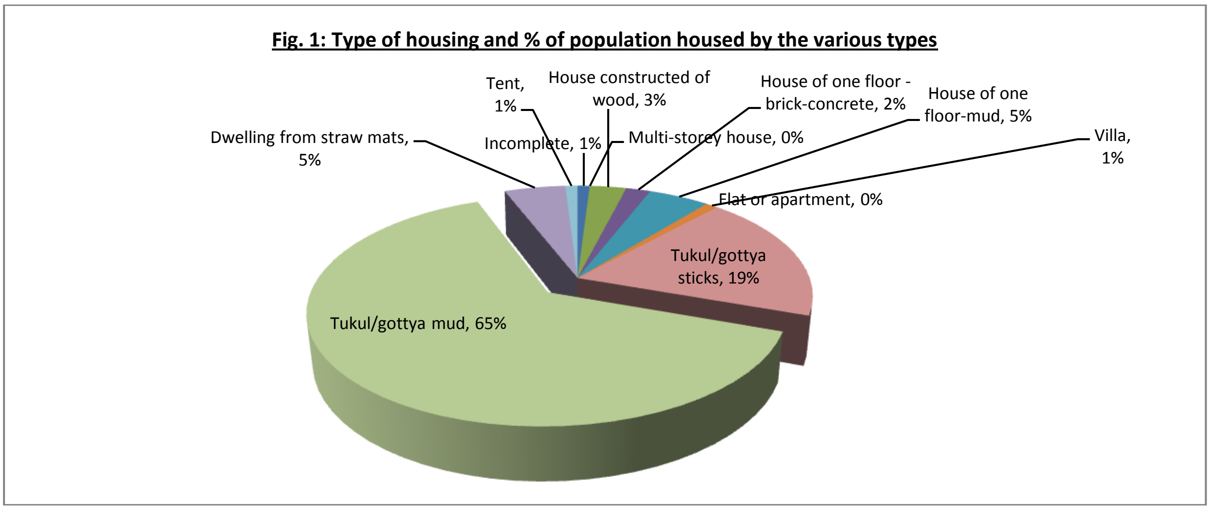
As a result, non-performing loans (NPLs) are a common feature on several banks portfolios; and worse still, the banks do not have adequate methods of enforcing repayment. The Judiciary system, which would play a key role in such scenarios, is severely constrained in terms of both capacity and resources and is untested in the dispute resolution of loan defaults.

In the World Bank's Doing Business Report, Juba scores 0 out of 6 on the depth of credit information index because South Sudan has no public credit registry or private credit bureau.

HOUSING SUPPLY

Until recently (2008), South Sudan has not had a well managed scheme on the supply of housing.

The country's current housing supplies are basic, of dismal quality and unique to a post-conflict country, which has not had well functioning institutions for a relatively long period of time (a decade or so). The type of houses in the country vary from mud and stick houses (known as Tukul/gottya) to tents, dwellings with straw mats, and single storey houses built with mud or concrete. See Fig. 1 for more details.



Source: Statistical Yearbook for Southern Sudan; 2010

Fig. 2: An example of a Tukul/gottya (built with mud and sticks)

The present housing types and supplies are also reflection of the low income levels[21], and the use of personal savings to build homes incrementally over time.

The vast majority of the population (93.3 percent) live in houses they own, 2.7 percent in rented houses, 0.6 percent in houses provided as part of work and 3.4 percent in houses provided free of charge[22].

About a third of the population (31 percent) live in houses with only one room, 64 percent live in houses with 2 to 4 rooms, and 5 percent of the population live in houses with 5 to 9 rooms.

With regard to consumption patterns/expenditure, the present consumption per person per month in urban and rural areas is estimated at about SSP 100 (about US$ 37.3), and of this amount, housing (materials for maintenance of dwelling, and repair of household appliances, among others) constitutes only SSP 4 (about, or less than US$ 1.5).

While the Government is committed to addressing the dismal state of housing in the country, there are more urgent and competing concerns such as maintaining peace and security at this crucial time of transition. For the 2010/11 budget, the government allocated SSP 23 million (US$ 8.5 million) to undertake a pilot affordable housing scheme. In the same budget, the government allocated SSP 5 million (US$ 1.8 million) for the Juba Town sewage and sanitation project.

The Central Equatorial State, one of the ten States of the country, has also embarked on a relatively large scale housing project, which is intended, in the short to medium term at least, to ease on the need for decent housing. The project was launched in 2008, in partnership with Abu Malek Companies & Agencies Ltd, the mandated project promoters for the Government of South Sudan. The project is estimated to cost US$ 650

[21] The main source of livelihood for the majority (71 percent) of the population is crop farming, 7 percent source their livelihood on animal husbandry, 11 percent source their livelihood on wages and salaries, 3 percent on owned business enterprises, 1 percent on property income and 7 percent on others sources.
[22] Source: Statistical Yearbook for Southern Sudan; 2010

million, and will set up a master plan community project in the City of Juba and Kajo Keji. The project will cover 16 square kilometres and will feature the following:

- 9,000 housing units will initially be built, and the number will scale up, depending on the levels of success of the project
- Commercial areas that will facilitate marketing and trading activities
- Industrial areas that will give way to products manufacturing and
- Agricultural projects that will guarantee local food supply for domestic and export marketing.

The housing units will be delivered in four classes (A, B, C and D), for eligible South Sudanese, with complete community facilities, including water, power, telecoms, roads and drainages. Prospective homeowners will have the option of either acquiring a unit by cash or "lease to own" within a defined period.

Type A and B houses will be designed for high-income earning households. A total of 500 Type "A" houses and 1,000 Type "B" houses will be built for the start.

The features of Type "A" houses will include a floor area of 200 sq. metres, 2 floors of concrete structures, 4 bedrooms, one master bedroom, a kitchen, dining room, 2 toilets and bath a laundry area, and a car park. These houses will be sold at US$ 300,000. The Nile Commercial Bank has secured the rights to pre-sell the units. Terms will include 15-year tenure (balance amortized equally for 180 months plus interest), 20 percent down payment, and a monthly payment of $ 2,500[23].

The features of Type "B" houses will include a floor area of 150 sq. metres, 2 floors of concrete structure, 3 bedrooms, one master bedroom, a kitchen, dining room, 2 toilets and bath, a laundry area and a car park. These houses will be sold at US$ 200,000. The Nile Commercial Bank has secured the rights to pre-sell the units. Terms will include 15-year tenure (balance amortized equally for 180 months plus interest), 20 percent down payment, and a monthly payment of $ 1,600.

Type C houses will be built for middle income households. A total of 2,500 units will be built for the start. The features for these houses will include a floor area of 120 sq. meters, 2 floors of concrete structure, 2 bedrooms, one master bedroom, a kitchen, a dining room, one toilet and laundry area at the back. These houses will be sold at US$ 96,000. The Nile Commercial Bank has secured the rights to pre-sell the units. Terms will include 15-year tenure (balance amortized equally for 180 months plus interest), 20 percent down payment, and a monthly payment of $ 750.

Type D houses (Flats – 5 stories, each with 10 flats) will be built for low income households. A total of 5,000 flats will be built for a start. The features for the flats will include a floor area of 75 sq. metres, 3 bedrooms, 1 kitchen, a dining room, one toilet, and a bathroom. These flats will be sold at US$ 45,000. The Nile Commercial Bank has secured and allowed to pre-sell the units. Terms will include 15-year tenure (balance amortized equally for 180 months plus interest), 20 percent down payment, and a monthly payment of $ 350.

In another development, the Kenya Commercial Bank (KCB) Group's mortgage subsidiary, S&L, has signed a $ 452 million housing deal with the Government to fund construction of 1,750 housing units for civil servants[24].

PROPERTY MARKETS

The property markets in South Sudan are still under developed, unsophisticated and hard to estimate both in qualitative and quantitative terms. It is envisaged that the completion of the housing projects currently underway will contribute immensely to the development of the property markets in the country.

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[23] The interest rate is fixed

[24] Source: The New Vision; June 2, 2009

AFFORDABILITY

The majority of the people (about 90 percent) of South Sudan live in rural areas and are employed informally in mainly the agriculture sector (smallholder agriculture, farming, livestock and fishing). Only 10 percent of the workforce is formally employed, of this, Government employees constitute the biggest portion (above 50 percent). Of those employed by government, the majority (54 percent) are low income earners, with monthly income ranging between 300 (US$ 112) and SSP 999 (US$ 372).

Lower to middle income households can be categorized under two segments; (i) those that earn between SSP 1,000 (US$373) and SSP 1,999 (US$ 745) and (ii) SSP 2,000 (US$ 746) and SSP 4,000 ($1,492). The middle income class earns between SSP 4,001 (US$ 1,493) and SSP 7,999 (US$ 2,984.

The highest income earning households are estimated at about 1.4 percent, with monthly income between SSP 8,000 (US$ 2,985) and SGD 15,000 (US$ 5,597).

Table 1: Estimates of Pay Structure and Probable Number of personnel per structure

Pay Structure (SSP)	Pay Structure (Equivalent is USD)	Eligible Personnel	Number of Personnel	Types of Houses that can be afforded
8,000 – 15,000	2,985 – 5,597	Includes Members of Parliament, Presidential Advisors, Ministers, President of the Supreme Court, Under Secretaries, and Legal Counsels	346	Individuals that earn above SSP 10,720 (US $ 4,000) can afford houses of US $ 200,000 which are targeted for middle income earners. None of these individuals can afford houses of US $ 300,000 which are targeted for their income levels
4,001 – 7,999	1,493 – 2,984	Includes Justice of the Courts of Appeal, High Court Judges and 1st, 2nd and 3rd Legal Counsels	434	Individuals that earn above SSP 5,025 (US $ 1,875) can ably afford a house of US $ 96,000. They cannot afford houses of US $ 200,000 which are targeted for their income levels
2,000 – 4,000	746 – 1,492	Includes 1st Lt. Generals, Lt. Generals, Major Generals and Brigadiers and Assistant Legal Counsel and Public Servants in Grade 1 to 6	2,031	These individuals can ably afford flats of US $ 45,000, which are targeted for low income earners. They cannot afford houses of US $ 96,000 which are targeted for their income levels
1,000 – 1,999	373 – 745	Includes Colonels Lt. Colonels, Major and Captains, and Public Servants in Grade 7 to 10	8,991	These individuals can not afford the flats of US $ 45,000, which are targeted for low income earners
300 – 999	112 – 372	Includes Lieutenants, Sergeant, Corporals and Privates and Public Servants in Grade 11 to 17	13,790	These individuals can not afford the flats of US $ 45,000, which are targeted for low income earners

Source: South Sudan Budget; 2011

From the above data, there is a strong suggestion that there is limited effective demand for the housing projects that will be undertaken in the country, including the one that has already been embarked upon in the Central Equatorial State.

For example, as highlighted in the section on housing supply – the Central Equatorial State Housing Project, flats that will be built for low income earners will cost $ 45,000, and prospective owners will have to remit a monthly payment of $ 350. However, from Table 1, given that low income households salaries swerve around $ 350 and much lower, and yet, a standard monthly payment of a mortgage should not exceed 40 percent of one's salary, none of the households in this income group will be able to afford the flats. The flats can, on the other hand, be ably afforded by the second segment of the lower middle income group that earns between SSP 2,000 ($ 746) and SSP 4,000 ($ 1,492).

For middle income earners, not all earn well enough to ably pay for the houses that will be built for their group. Houses for middle income earners will cost $ 96,000 and prospective home owners will have to remit a monthly payment of $ 750. From Table 1, the middle income group earns between SSP 4,001 ($ 1,493) and SSP 7,999 ($ 2,984). Since a standard monthly mortgage payment should not exceed 40 percent of one's salary, individuals that earn between SSP 4,001 ($ 1,493) and SSP 5,025 ($ 1,875) will not be eligible for these houses.

In the high income earning group, a similar scenario to that of the middle income group is evident.

POLICY AND REGULATION

There is no evidence of a South Sudan housing policy. Nonetheless, the country has a Ministry of Housing in place, and one of its ongoing projects is to design and implement a legal and regulatory framework that shall enable the Government of South Sudan to mobilize public and private sector resources to rehabilitate the existing, war-ravaged, public buildings and utilities, with a special emphasis on urban areas.

Further, one of the key priorities of South Sudan Development Strategy is improving social welfare by expanding the population's access to basic education, health, water and sanitation services that are coordinated, regulated and provided by local institutions.

According to a Land Act, approved in 2009, there are three systems of tenure: Customary, Freehold, and Leasehold. Land is classified as public (held by government), community (held by communities) or private land (leaseholds of up 99 years and freeholds). The Land Act effectively details:

- Ownership rights proven by legal title for all short term leases
- A decentralized system of land registry maintained by the Ministry of Housing, Physical Planning and Environment
- The right for title holders to use the land as a surety to secure debt (where mortgage contracts are to be registered in the land registry), and
- The right for creditors to foreclose on land title in case of default. It should however be noted that while the Land Act allows creditor's to foreclose on land as collateral, no laws currently detail the creditor's rights and appropriate registry for other types of collateral. It is important that such legal frameworks (the equivalent of the Mortgage Act) are established as well as an associated system of standardized collateral evaluation and registry, to better facilitate the provision of fixed asset based lending.

Although legislation expounds the institutions and mechanisms for titling, registry, and the right to use land as collateral, the institutions in place are still at a nascent stage of development, and have not yet been tested adequately. For instance; the institutions which currently register titles have low capacity and lack appropriate IT Systems, procedures and support (especially at decentralized level). Other structures will also need to be developed for the compensation for expropriation and the application of customary practices/law (described in the Land Act)[25]

In the past, because of the absence of a clear system for land titling and registry, some banks have been reluctant to accept land as collateral, while other banks accept so called “British Leasehold” with 30 remaining years as collateral, while other banks accept land titles for Juba based property only.

OPPORTUNITIES

- The number of commercial banks need to be scaled up, to allow for more competition and dynamism within the banking industry. Further, there is need to institute long-term finance schemes within the banking system, if the lending culture of banks is to appreciate.

- There is need to attract more organized real estate developers, both local and foreign, if the country is to address the shortage of housing.

- There is need to guide and build technical capacity of NGOs and other donor funded organizations to start initiatives in which they fund Micro Finance Institutions to start issuing housing micro-finance products such as home improvement loans.

- There is need to facilitate and support the establishment of housing cooperatives in which individuals would obtain houses under conditions that suit their incomes.

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