Country Report

December 2017

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Centre for Affordable Housing Finance in Africa

Rwanda

LANDSCAPE OF INVESTMENT

BACKGROUND

The report presents and in-depth analysis of the landscape of investment in Rwanda. 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 Rwanda, 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

The Pension Sector

For long-term finance, commercial banks have inevitably had to rely on pension funds, given the low performance of capital and secondary markets. The Rwanda Social Security Board (RSSB) is the largest provident fund in the country providing up to 34 percent (over RWF 250 billion of its assets) to various commercial banks as term deposits. RSSB has invested in commercial banks through both equity and debt instruments. The table below delineates notable investments by RSSB in banks for the purpose of boosting their ability to provide long-term funding to the housing sector.

Investments in Housing and Housing Finance Sector

Investor	Investments	Amount RWF	Stake/Purpose	Period	Impact of Investment on the delivery of affordable housing
RSSB	RSSB Properties	96 billion	100 shareholding	Over 30 years	Targeted the middle to high–end clients with luxury homes and commercial properties.
RSSB	Equity Stakes in Various institutions	172 billion	25.1% in Bank of Kigali and finance companies	Over 20 years	Supported construction and mortgage finance to the tune of FRW 17 billion for over 5,000 units
RSSB	Term deposits in Financial institutions	226 billion	Deposits to commercial banks to fund the loan book	Over 2 years, renewable	Supported construction and mortgage finance to the tune of FRW 60 billion for over 8,000 units
RSSB	Corporate Bonds	2.7 billion	Loans to various institutions including real-estate	Over 8 years	Increased access to mortgage for delivery of over 1,300 units.
Rwanda Development Bank	Loans to Financial institutions & direct mortgage lending	45 Billion	Loans to various institutions including real-estate	Up to 20 years	Enabled mortgage finance for over 12,000 housing units
Total		**541 billion**			

Source: RSSB (2017)

Notably, RSSB's investments to both developers and mortgage borrowers, have been instrumental in growing the construction sector, at an annual average rate of slightly above 10%. In contrast to Uganda's pension regulations that specify permitted asset classes for schemes in the pension sector, Rwanda's RSSB has larger latitude to invest directly in commercial banks through term deposits and also take on the development of housing estates for the benefits of income gains. The key benefits for the regulatory regime is the freedom given to pension firms to invest in sectors that they consider lucrative, even when beneficial gains, though modest[3], can only be realized in the very long term. The regime therefore allows for pension sector assets to be invested in large housing developments thereby boosting supply of houses in the short to medium term (Houses delivered are however not affordable (above US$ 35,000), to allow a reasonable return to members' savings). Additionally, loans to commercial banks can be used to support mortgage lending thereby creating demand for the housing units built by the RSSB and its partners. There is however a proposal to harmonize pension sector regulations in the East African Region[4].

A key challenge with the Rwandan economy is that the pension sector is dominated the RSSB. There are not many other noteworthy pension funds mobilizing local currency long-term funds to support the mortgage sector. Private pension funds are mainly operated by insurance companies as guaranteed funds and holding a total asset portfolio of under FRW 500 billion (compared to RSSB FRW 639 trillion by June 2016). These assets have mainly been invested in government treasury treasuries. As a policy implication, liberalization of the pension sector would open up space for private sector entities to compete for mandatory contributions currently being channeled to RSSB. Innovative investment vehicles, including structured finance to the real estate sector, would then be created as an investment avenue to offer attractive returns to the pension savers. Increasing activity in this sector would ultimately

3 The return on investment in real estate is estimated at about 0.3%

4 Uganda and Kenya are already following closely similar regulations on eligible investment vehicles for the pension sector with specific limits given for various assets classes including real estate investments. Legislative consultations on reviewing the sector regulations are commenced in Kigali in an effort to align the sector with the rest of the region and international best practice. If the bill is passed into law, the financing for the housing sector is likely to be more depressed as local currency funding from the pension sector become highly restricted to investments in marketable securities.

increase savings and available funding for long term investments. An alternative source of local currency support for housing finance would be through the stock exchange. However, at 5 years, Rwanda Stock exchange has not yet gained the much needed publicity among individual and institutional investors to mobilize funds through marketable instruments like the corporate bonds and Real Estate Investment Trusts (REITs). Discussions on REITs are still at an infancy stage and may take a few more years before an active product is listed on the Exchange.

The Stock Exchange

Transactions on Rwanda Stock Exchange have been few and distant. Looking at the bond side, two bonds have been issued since 2010. I & M bank issued a RWF 10 billion loan to support access to long terms funding. The other hugely successful transaction is the IFC Umuganda bond issued and listed in 2014. The IFC bond[5], though not in any way supportive of the budding housing and housing finance sector, was a success and demonstrated that the Rwandan capital markets welcomed domestic and international investors. The IFC "Umuganda" bond was aimed at developing the capital market. Prior to the bond issuance, IFC had invested $2.5 million and $2.4 million in AB Bank Rwanda and Urwego Opportunity Bank respectively to support the expansion of microfinance services in the country and also increase access to finance for farmers, start-up businesses, and women entrepreneurs. IFC had also concluded a $25 million facility to support IHS Rwanda, a telecommunications infrastructure company, to expand the reach of Rwanda's existing networks.

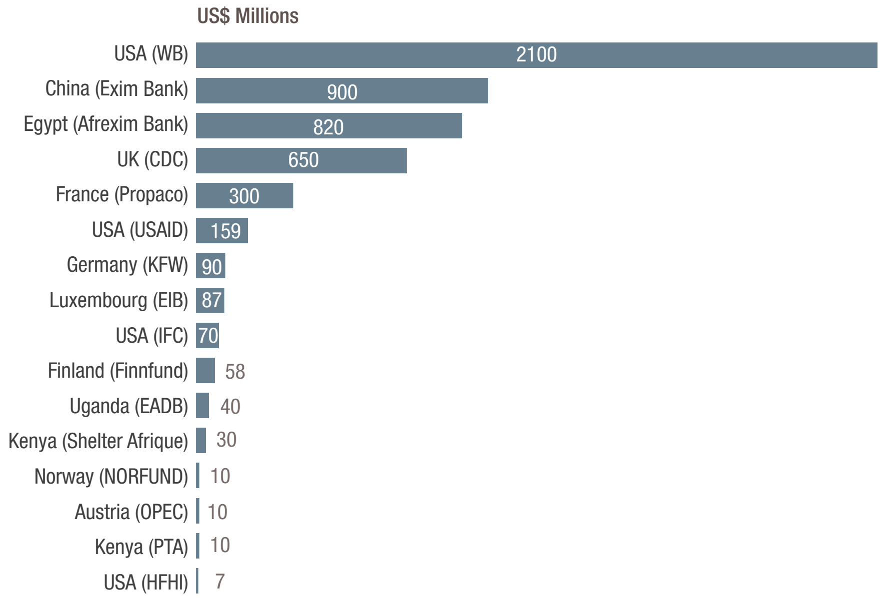
Overall, the Rwanda Stock Exchange has so far seen only two local banks listed (KCB and I&M). The other two banks KCB and Equity are cross listed entities from Nairobi whereas the remaining 4 entities (Bralirwa, Crystal telecom, Nation Media Group and Uchumi Supermarket Limited) represent consumer and telecommunications sectors. With low levels of activity on the stock exchange, local lenders are unlikely to strongly consider it as sustainable source for long term funds for the mortgage sector. At over 12% coupon rates, the resultant bond proceeds are out of range for a mortgage lender and makes final loan rate uncompetitive. Ultimately, the concern remains the high cost at which mortgage lenders access and advance funds to their clients. At over 16%, Rwanda's lending rates for real estate loans remain among the highest in the East African region.

Foreign Institutional Investors

Overview

Rwanda is home to 16 DFIs, collectively, mobilizing US$ 5.3 billion, in the period 2000 to 2017, to fund multi-sectoral programs. From the figure below, USA (through its resident institution, the World Bank – US$ 2.1 billion) is home to the biggest investor in Rwanda, followed by China, through the Exim Bank – US$ 900 million. 10 out of the 16 DFIs (USA (HFHI), Norway (NORFUND), Austria (OPEC), Kenya (PTA), Kenya (Shelter Afrique), Uganda (EADB), Finland (Finnfund), USA (IFC), Luxembourg (EIB) and Germany (KFW), committed less than US$ 100 million, in the period 2000 to 2017, to the Rwanda economy. The section below provides details on the investors' source of capital and other characteristics of their investment model.

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



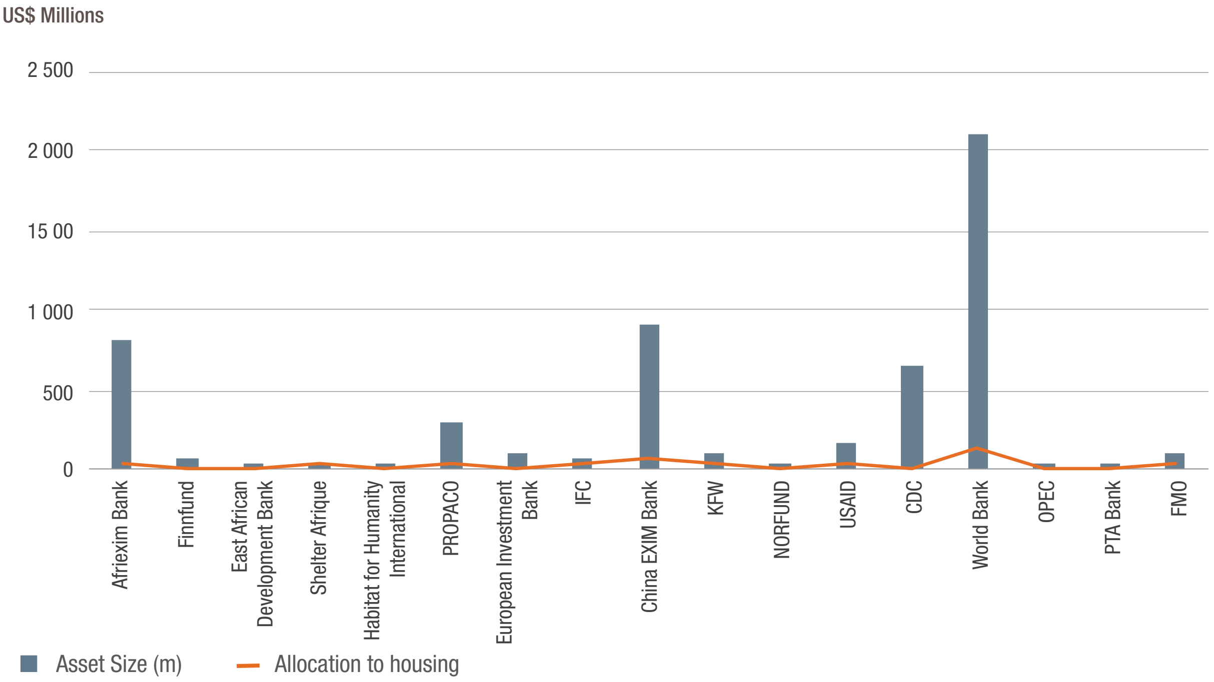
Source: Institutional Investors' Annual Reports (2000 – 2020)

[5] Proceeds of the bond were on-lent to AB Bank Rwanda, Urwego Opportunity Bank, and IHS Holding (a Telecom Towers operator) to help increase access to finance and telecommunications in Rwanda. The bond was denominated in Rwandan francs, raising 15 billion francs (approx. $22million) at 12.25% yield to support the country's domestic capital markets. The bond was the first placement by a nonresident issuer in Rwanda's domestic capital markets. The bond was oversubscribed by 3.9 times and attracted abroad range of domestic and international investors, signaling a vote of confidence in the Rwandan currency.

Total Assets versus Investments in Housing and Housing Finance Related Activities

In the period 2000 to 2017, 9% (US$ 470 million) of the total assets (US$ 5.5 billion) was invested/committed to activities in the housing and housing finance sector in Rwanda. The biggest investors in the sector were WB (US$ 140 million), Shelter Afrique (US$ 30 million), IFC (US$ 35 million) and Exim Bank (US$ 55 million) - See the figure below for more details.

Total Asset vs. Assets to Housing Allocation to the Rwandan Market (2000 - 2017)



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

Investment Activity in Housing

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

Top Performing Investment Tools

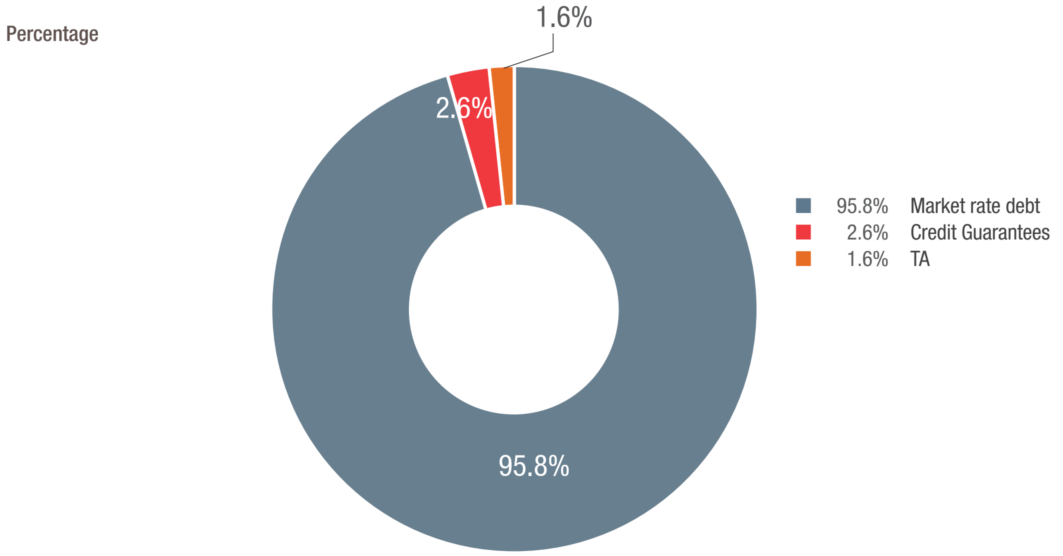
In the past two decades, financial institutions have formed strong partnerships with DFIs to ensure a constant supply of loanable funds, for their diverse portfolios. As is the case in Kenya, loans and lines of credit dominate (95%) the investment tools, in Rwanda. EIB and BRD have been instrumental in boosting I&M bank's ability to offer long term finance to the housing sector. EIB advanced facilities of over EUR 5M for 7 years to I&M Bank to support SMEs involved in various business sectors including construction and manufacturing, thereby providing vital inputs to the housing sector.

Another key mortgage lender in the industry is KCB Bank. A number of international institutional investors have advanced resources to KCB, to enhance its outreach and operational efficiency in Rwanda. EIB advanced a EUR 5M facility to support SME, at interest rates of 9.5 to 11.4% on the RWF and 4.4% on the USD. In 2011, the bank concluded credit agreements with AFD (USD 20M, Libor + 3.74%) and AfDB (12M, Libor + 4.15%). These two lines of credit, combined with three medium term facilities from EADB (USD 10M), PTA (USD 10M) and OPEC (USD 10M) boosted the bank's ability to lend long-term to the housing sector, **creating over 1,700 construction and home loans.**

From about USD 65M, the bank would disburse about 5,000 loans of RWF 40M, considering the multiplier effect of early redemptions. However, about 1,700 loans were created mainly due to currency mismatch and focus of the credit lines. The main funding areas targeted were SMEs. Additionally, most mortgage borrowers require RWF as opposed to USD, since they earn and service their loans in RWF. These two reasons account for the low generation of home loans from the mentioned lines of credit.

FMO has been instrumental in enhancing the capacity of MFIs to offer micro housing loans to communities. In 2015, FMO extended a loan of USD 10 million for 5 years to Vision Fund International (VFI) - a microfinance institution with 1.1 million clients in Africa. This loan came along with a USD 275,000 capacity development grant to support VFI with an innovative approach to disaster resilient microfinance. Advances for VFI largely target the rural and female clients for inclusiveness.

Top Performing Investment Tools for Rwanda's Housing Market



Source: Annual Reports of Institutional Investors

EIB, AFD and other lenders have provided Technical Assistance, on a number of capacity development issues. EIB for example introduced a TA programme to help diffuse best-practices in several aspects of bank management and ensure that banks continue to improve their operations and train their staff in credit management and customer relationship management. Part of the program targets clients of the banks (business owners and managers). For bank clients, areas of the TA package include entrepreneurial skills, drafting of business plans, and submitting quality credit requests, among others. The challenge here has been the absence of a housing sector focussed programme. To benefit the housing sector, Technical Assistance programmes need to be tailored to the needs of housing and housing finance sector, with particular focus on the design of affordable products, underwriting of non-formal sources of credit to secure housing finance.

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

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

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

Investor	Allocation to Housing (Millions USD)	Investment Activity/Tool	Horizon (Years)	Period (Years)
BRD	56.0	Lines of credit for mortgages and Developer Finance	8	2005 - 2017
Afriexim Bank	10.0	Development loans granted to support import and export trade, including for housing inputs. About 20% of the imports are for the housing and construction sectors	5	1997 - 2016
Finnfund	2.2	Credit Information Bureaus and Infrastructure projects that have a direct impact on housing	6	2012 - 2017
EADB	10.0	Lines of credit for mortgages and developer finance	7	2000 - 2017
Shelter Afrique	30.0	Lines of credit for funding the real estate developments	7	2000 - 2017
HFHI	7.0	Wholesale lending through the Housing Finance Microfinance Partnership programme with MFIs	5	2010 - 2017
RSSB	310.0	RSSB invests directly through construction of residential and commercial units but also indirectly through provision of long-term finance to lending banks.	10	2005 - 2017
PROPACO	8.1	Lines of credit to mortgage providers	7	2008 - 2016
EIB	1.4	Lines of credit for drawing down towards viable projects including the construction and Housing Sector.	7	1970 - 2017
IFC	35.0	Credit line for commercial banks including KCB Rwanda and co-financing of large development projects	7	2002 -2017
China EXIM Bank	37.6	Funding infrastructure projects that have had a direct impact on housing developments	10	2002 - 2016
KFW	2.9	Technical Assistance and credit lines	7	2011 - 2016
NORFUND	0.5	Provision of long-term funds through debt in financial institutions	8	2012 - 2016
USAID	5.6	Credit guarantees	5	2011 - 2016
CDC	13.0	Developer finance	8	2000 - 2016

Investor	Allocation to Housing (Millions USD)	Investment Activity/Tool	Horizon (Years)	Period (Years)
World Bank	140.0	Lines of credit and Technical Assistance	10+	2001 - 2017
OPEC	10.0	Lines of credit to mortgage providers	5	2001 - 2017
PTA Bank	10.0	Project Finance, Corporate Finance, Leasing and Guarantees	5	2002 - 2017
FMO	10	Wholesale lending to MFIs	4	2002 - 2017

Source: KII with Banks and Annual Reports of Institutional Investors

Impact of Investments on Rwanda's Housing Industry

The Breadth and Depth of Housing and Housing Finance Products

Mortgages

The table below shows that the total portfolio that has been directly invested in the mortgages is US $ 233 million, by the end of 2016. The number of housing finance loans generated from this portfolio was estimated at 4,000, in the same period. This represents only 1% of the total number of households in the country. The breadth and depth of local and foreign institutional investment in Rwanda's housing finance sectors is indeed shallow.

Characteristics of the Housing Finance Market

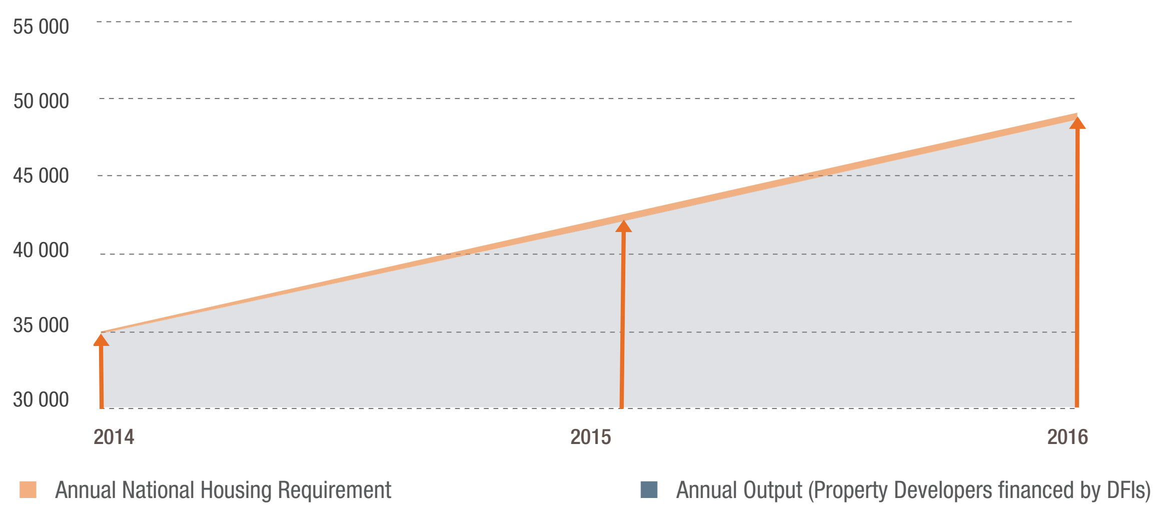
Bank	Bank of Kigali	BRD	I & M Bank	KCB Bank	Equity Bank
HF Product	Home loans & Construction Finance	Home loans & Construction Finance	Home loans & Construction Finance	Home loans, & Construction Finance	Home loans & Construction Finance
Portfolio Size ('000) USD	5.2M	8.9M	4.7M	2.3M	2.2M
NO. of HF Loans	About 1,000	1,300	About 600	About 400	About 400
Average Loan Size (USD)	63,000	63,000	67,500	72,000	100,000
Max Loan Size	Depends on property Value	Depends on property Value	150,000	150,000	200,000
Loan Term	15 years	20 years	20 years	15 years	15 years
Pricing	18%	18%	17.5%	18%	17.5%
Implied Monthly Income	1.5 m (US 1,700)	1.5 m (US 1,700)	1.64 m (US 1,800)	2.03 m US 2250)	2.73 m US 3,000)

Source: Key Informant Interviews

Property Developments (Housing Units)

Several housing estates have emerged around the city of Kigali. Most of these developments are however targeting high end clients interested in luxury housing units (above US$ 35,000 per unit). The only exception is Batsinda project which is expected to deliver the first affordable housing units, starting with 530 units with support from government. Provision of standard housing units is far below the annual housing need of 35,000 units per annum, growing at rate of 20%, per year, as illustrated in the figure below. Figures presented here exclude units constructed by small private developers and for self-occupation. Even when these are added, the deficit remains large, particularly in the affordable housing segment.

Output vs. Annual Housing Requirement in Kigali



Source: Consultant's mini-survey of Property Developers in Rwanda.

Challenges/Opportunities to deepening and broadening the Investment Landscape

Challenges

A combination of factors including inadequate supply of long term mortgage finance, relatively high inflation rates (over 6.2% on average for the last 10 years) and low levels of competition among the few existing mortgage lenders account for the high interest rates on mortgages. The main providers of housing finance products include the Rwanda Development Bank (BRD), I&M Bank, Bank of Kigali (BK), KCB Bank (KCB) and microfinance institutions - Urwego and Opportunity MFI. Funding for the banks is drawn from various sources (local and foreign institutional investors and internal funds), while MFIs are limited to internal sources.

The horizon of long-term investments is another challenge. Housing and constructions developments greatly benefit from long term facilities. However, most investors (90%) in the market are lending for 5 to 8 years thereby creating a refinancing gap for financial institutions that venture into long term funding for the housing sector. Internally, banks, guided international best practices, have safely utilize 15% of their deposits as a source of long-term funds for housing finance products. With average deposits currently at FRW 1.5 trillion, a 15% ratio translates to about FRW 225 billion as available funds for long term loans from deposits, against a funding need of FRW 14,000 billion. The coverage is therefore 27% of the total funding gap. The funding gap has been addressed with a mix of local and foreign funds, however, sourced at terms that generally favour lending to middle and high income earners only (less than 8% of the population).

Opportunities

IFC's success in raising funds for the other sectors presents a strong case for prioritizing the housing and housing finance value chain. However, funds raised in local markets usually come at high interest rates as a result of high inflation and other high yielding alternatives such as treasury bonds offered in such markets. Such funds raised are not normally competitive for the housing sector. The alternative would be raising USD funds from international markets. With its triple A rating, IFC can raise funds at the lowest cost thereby availing the same at concessional rates to lenders in African markets. This gain would pose exchange challenges, since most final borrowers earn and service loans in the local currency. However, with a good hedging partner, currency rate solutions can be crafted out to benefit the housing sector. Overseas, IFC piloted a project with issuance of a 3.5 billion Rwandan francs ($5 million) for listing in Luxemburg. This first offshore bond for IFC raised funds be held as part of the IFC's global currency holdings. The three-year bond, called 'Twigire' (self-reliance), carries a 9% coupon and was placed with five international investors.

In its 5 year Financial Sector Development Strategy, Rwanda's Ministry of Finance and Economic Planning seeks to provide RSSB with enhanced autonomy and accountability to enable it effectively manage the investment portfolio. As capital markets develop, the RSSB will become a major purchaser of bonds and equities, as these long term assets are well suited to its long term liabilities and more liquid than the current real – estate dominated portfolio. It is envisaged that the enactment of the Pension Law will establish the basis for private pension plans. This will meet the social objective of facilitating retirement savings, as well as playing an important role in mobilizing long-term savings and contributing to capital market development.

The central bank - BNR will put an appropriate licensing and supervision regime in place to protect consumers and ensure pension funds are able to meet their financial promises. The resultant effect of these reforms will be increased availability of long term funds accessible by financial institutions through marketable securities such as RSE listed bonds. The reforms will also restrict direct involvement of RSSB (and smaller pension funds) in real estate developments, contrary to the current less restrictive pension sector regime. For institutional investors, investment opportunities will still be available through provision of long term finance to mortgage lenders. The challenge with marketable securities is one of pricing. Bond institutional investors are highly price sensitive, only taking up securities if returns on such securities are quite attractive. Coupon rates are therefore benchmarked on similar term bonds, which make proceeds of such bonds expensive as sources of long term finance for mortgage lenders. This will then compels such institutions to focus away from stock markets for other sources of term finance.

Credit Enhancements and credit guarantees

Rwanda's housing and housing finance sector is yet to benefit from credit enhancement facilities and guarantees. Nonetheless, a programme of note is USAID's Development Credit Authority (DCA) that was created in 1999 to mobilize local private capital through the establishment of real risk sharing relationships with private financial institutions in USAID countries. The tool has been used as a vehicle for providing much needed credit to an array of enterprises and underserved sectors. In Rwanda, this guarantee has benefited the agricultural sector. In 2001, USAID/Rwanda implemented several technical assistance projects to support Rwanda's National Coffee Strategy.

To support these projects, in 2004 USAID implemented a Development Credit Authority (DCA) loan guarantee with the Bank of Kigali (BK) with the objective of increasing access to credit for strategic export-oriented agricultural enterprises. Qualified borrowers included investors in coffee washing stations which are a key component of the strategy to improve coffee quality. The DCA guarantee covered 40% of the loss of principal on a maximum of $2 million in loans. In the 32 months that the guarantee was in effect the Bank of Kigali issued over $1.7 million in investment and working capital loans to coffee washing station investors thus utilizing 86% of the guarantee. For the housing sector, a similar guarantee will help reduce the risk for low income earners. A guarantee arrangement should make it possible for the home loan borrower to access loans without necessarily depositing the 30 to 40% down payment. This has been a limiting factor where incomes are relatively low to support savings towards such high down payments. For lenders, a high down payment requirement reduces the banks' funds at stake and increases the owners' equity in the house thereby lowering the risk of default. However, where this requirement is reducing affordability to home loans, arrangements to lower the required down payment to 10 - 15% with the balance supported by a guarantee in case of default will improve access to home loans and aid affordability.