LIQUIDITY

DEOGRATIUS WAMALA

'Don't sell your entire plot to fix a Shs20m problem'

Wealth, in Uganda, has long worn the same face: a plot of land, a rental unit, a savings account earning just enough to feel responsible.

For millions, this is a monument because it is solid, visible, and completely immovable when it matters most.

It, however, becomes a problem when something happens: a medical bill, a business opportunity with a tight window, school fees arriving three months early, where for instance, you need Shs20 shillings, and you need it quickly.

This is the moment the typical Ugandan investment portfolio fails you. Not because the wealth isn't there, it is.

But because it is locked inside an asset that cannot be partially sold, takes months to transfer, and costs you up to 10 per cent of its value in fees before the money reaches your account.

That then means you do not have a liquidity problem, you have a land problem.

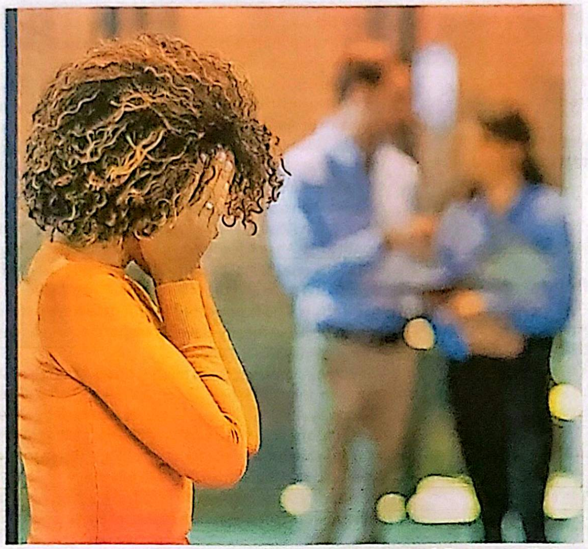
Yunus Mugula, chief treasury and markets officer at Pearl Bank, has watched this scenario play out enough times to have a name for it.

"If you have your plot of land in Kyanja worth Shs200 million," he says, "and you have a problem of Shs20 million. You can't go and sell a corner. You have got to sell the entire thing and disrupt your portfolio."

The word he uses; problem, is deliberate. It is not a debt. It is not a crisis. It is simply a need. The structure of most Ugandan portfolios means that even a manageable need can force a catastrophic decision.

His argument is not that land is a bad investment. In Uganda, it has historically been the opposite. Values have risen, and for many families, property remains the most significant store of wealth they own.

Land should not be the only thing in a portfolio. For the part of your wealth that needs to remain accessible, liquid, income-generating, and deployable on short notice, Uganda's government bond market now offers something worth understanding.



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The leverage of bonds

Treasury bonds are issued by the government and traded on the secondary market in units of Shs100,000.

That unit structure is everything. It means that a bondholder who needs Shs2 million does not need to sell their entire position; they sell 20 units and leave the rest untouched.

"With government securities," Mugula explains, "you can liquidate only what you need without disrupting the balance."

Compare that to the land transaction. A valuer must be commissioned. A buyer must be found and negotiated with. Transfer fees, legal costs, and agent commissions are absorbed; costs that, Mugula notes, "can eat up as high as 10 percent of the value of your asset."

In the best case, the process takes months. In a genuine emergency, that timeline is not available.

The bond transaction, on the other hand, happens in the secondary market, where government securities are actively traded in large volumes.

The timeline is short, the costs are minimal, and because bonds trade in those small unit sizes, the transaction can be calibrated to exactly what is needed; not a shilling more, not a shilling less.

The return, and the certainty behind it

Sixteen per cent after tax. That is the yield on Ugandan treasury bonds, and it is a number that tends to produce scepticism before it produces interest.

Government paper, in the popular imagination, is the cautious option; low risk, low return, for people who do not want to think too hard about investing.

In Uganda's case, that assumption is wrong by a significant margin.

At 16 per cent after tax, a bond investor recovers their initial capital in under seven years; and collects income throughout, paid as a fixed coupon every six months on dates that are set before a single shilling is committed.

"With a treasury bond," Mugula says, "you are assured of a fixed coupon at predetermined dates every six months at the onset. That means you have cash flow certainty."

That word; certainty, is doing a lot of work. Bare land generates no income at all unless it is developed.

Rental income is real but fragile: occupancy rates fluctuate, maintenance costs arrive unexpectedly, and tenants are not always predictable.

A bond pays on the date it said it would, in the amount it said it would, every time.

For anyone planning around a specific future liability; a child's university fees, a construction project, a retirement date, that predictability has a value that raw yield comparisons do not capture.

There is a fourth benefit that is less often discussed: bonds can be pledged as security against a loan, and the process is simpler than doing the same with land.

When land is used as loan collateral, the bank must commission a professional valuation, which the borrower pays for.

It must then register a charge through the Ministry of Lands, which takes time and involves further fees. The entire process is slow, expensive, and bureaucratically dense.

When a treasury bond is pledged instead, the bank checks the Central Securities Depository system to confirm that the bond belongs to the borrower. The borrower signs a one-page lien form.

"It's cheaper and much easier," Mugula says.

The lien, crucially, covers only the portion of the bond required to secure the loan. Borrow Shs2 million against a Sh2 million bond position and only Shs2 million worth of units are locked.

The remaining Shs8 million continues to trade freely; and throughout the loan period, the coupon payments keep flowing to the bondholder.

"You can't sell it," Mugula acknowledges of the liened portion, "but you still earn your coupons. The coupons will come to you."

Securities

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How to get started

The practical barrier to entering Uganda's bond market is lower than almost anyone assumes.

The starting point is a Central Securities Depository (CSD) account; the account through which government securities are held and traded.

Any commercial bank in Uganda can open one. The documentation required is a two-page form, a copy of your national identity card, and a passport photograph.

"Opening a CSD account is a fairly simple exercise," Mugula says. "Actually, simpler than opening bank accounts in most banks"; because the bank has already conducted identity verification when you opened your current account.

The CSD application largely builds on that prior process.

Once the account is open, the minimum investment is one Shs100,000.