

WHAT HAPPENS WHEN GOVT BORROWS LESS?

By Ali Twaha

Pension funds, banks and other financial institutions have fattened on high-yielding government bonds through parking the bulk of their assets in government securities and collecting yields of around 17%. For instance, in 2025, commercial bank interest income from government bonds grew by more than 20%, whereas interest from loans and advances to customers grew by 9%.

But what happens when the Government no longer needs their money?

In a recent discussion, financial analysts said heavy allocation to government securities by firms is now overly subscribed and not sustainable for the country in the long term. They argue that alternative investments should reshape how investors think about diversification, long-term growth and portfolio resilience.

Recent figures show that about 80% of the retirement benefits sector is sitting in government bonds, drawn by safety and attractive double-digit yields in a high-interest environment.

"The issue we are grappling with now is how we help the sector to get more alternatives where to invest," Martin Nsubuga, the chief executive officer of Uganda Retirement Benefits Regulatory Authority, said.

RESTRUCTURING INVESTMENTS IS KEY

Alan Lwetabe, the director of investment at the Deposit Protection Fund, said for a pension fund that has built its whole strategy around lending to government, it is likely to face a structural problem when yields

Wachira (second-right) interacts with officials from the banking sector, at Four Points By Sheraton in Kampala, recently



start declining.

"We have identified a challenge that there was limited awareness about the opportunity that real estate offers to pension funds. Largely in Uganda, this has been driven by the National Social Security Fund as a developer, as an investor in real estate, but the other schemes have not strongly taken up the opportunity," Lwetabe says.

"In ten years, the Government is likely to be richer and the need to borrow at 17% is going to reduce. So, a scheme that is looking forward, that has strategic foresight, must prepare itself to change. The 25-year bond today that is at 17% is likely to be at 12% in 10 years from today. So how do you replace a high-earning investment with something else and the conversation we are having today is perhaps real estate will give us those opportunities," he added.

Edward Wachira, the chief executive

FUTURE CONCERNS

Government's tenfold growth strategy seeks to grow the economy from about \$60b to \$500b by 2040. If successful, economists say the need for expensive domestic borrowing should ease, meaning a richer government can finance itself more cheaply through other means, such as stronger tax revenues.

In Uganda, trustees often face short tenures, making long-gestation projects like real estate developments risky. By the time scoping, structuring and approvals wrap up, their term might end, leaving successors to own the outcome. Fund managers also worry about performance fees if returns dip during the lag.

officer of Kenyan investment firm Genghis Capital, said Kenya has ksh2 trillion in pension assets across 1,400 registered schemes, but even there, transition to alternatives has been slow and incomplete. He said government securities still account for 52% of pension allocations in

Kenya, with guaranteed funds adding another 18%. Real assets, including direct real estate, sit at just 8%.

The regulatory framework in Kenya now allows up to 30% allocation to real estate, but permission on paper and action in practice are different things. The barriers are not primarily

financial. Wachira says the challenges are structural, behavioural and deeply human.

CHANGES IN OTHER MARKETS

Africa's pension funds hold assets in excess of \$700b. In South Africa, real estate catering to retired persons has become a reliably high-earning segment.

In Kenya, purpose-built student housing in Nairobi, offering hotel-quality amenities, has generated returns of up to 25%, drawing interest from American investors. In Botswana and Zambia, institutional investors who understood their local market have found that real estate can replace, and sometimes beat, what government securities used to offer.

David Wangolo, a finance and investment professional, said lending to government through treasury bills and bonds is passive, while infrastructure investment is generative.

"The alternatives over and above the government assets offer returns that differ from those of the government assets. They are more long-term, they appreciate the risk of the younger savers and they present different growth opportunities. It is unlikely that government will continue to borrow and pay the levels of interest that they are currently paying," he said.

"That is not sustainable for the development of the country, and so it is important that long-term savings that are being mobilised and are growing try to find other alternative assets that develop the general economy," Wangolo advised.