



ACCESS TO HOUSING FINANCE IN AFRICA: EXPLORING THE ISSUES

No. 4

UGANDA



Overview of the housing finance sector in Uganda,
commissioned by the FinMark Trust with support from



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June 2008

BACKGROUND TO THE SERIES

Since 2002, the FinMark Trust has been pursuing its mission, “[Making Financial Markets Work for the Poor](#)”, first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

A key product developed by the FinMark Trust is FinScope™, a national-level survey of individual usage of financial services, now being undertaken in eleven African countries.¹ FinScope™ will provide baseline data to stimulate policy change and support innovation by commercial providers seeking to deliver products and services sustainably to consumers who are currently outside the formal financial system. FinMark Trust will build on the impact of FinScope™ by promoting and supporting change processes across the continent.²

FinMark Trust’s Housing Finance theme area³ conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor. Broadly, the housing finance theme’s activities can be separated into the following categories:

- Understanding the housing asset
- Exploring housing finance innovation
- Understanding issues relating to housing finance in Africa

This report is the fourth of a series of studies which will explore access to housing finance in various African countries (earlier reports consider housing finance sectors in Zambia, Botswana and Kenya). It is meant as an input into a larger debate about how to enhance access to housing poor by low and moderate income earners throughout Africa. Comments and contributions can be sent to the FinMark Trust’s Housing Finance Theme Champion, Kecia Rust on Kecia@iafrica.com.

The FinMark Trust hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

Country Profile: Uganda⁴

- **Population:** 27.6 million (UN 2005)
- **Capital:** Kampala
- **Area:** 241 038 sq km (93 072 sq miles)
- **Major language:** English (official), Swahili, Ganda, various Bantu languages
- **Major religions:** Christianity, Islam
- **Monetary unit:** 1 Ugandan shilling = 100 cents
- **Main exports:** Coffee, fish and fish products, tea; tobacco, corn, cotton, beans, sesame
- **GNI per capita:** US \$270 (World Bank 2005)



¹ FinScope™ is a nationally representative study of consumers’ perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments. FinScope™ explores consumers’ usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope™ is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. See www.finscope.co.za

² By 2012 it is intended that some 20 countries in Africa will have the survey. Repeat studies will take place on 2-3 year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison especially around access to finance. FinScope™ data will provide financial service providers and regional integration initiatives with comparable, standard and reliable data about demand for financial services across borders. (FinScope™ Africa Brochure)

³ To go to the housing finance theme page, go to www.finmark.org.za, click on “themes” and then click on “housing finance”.

⁴ From FinScope™ website.

Exploring housing finance in UGANDA

Uganda's housing finance sector has undergone both qualitative and quantitative transformations and growth over the last decade. The sector has since 2002 registered substantial growth, expanding from one government-owned institute to 4 privately owned commercial banks and 1 Micro-finance Deposit taking Institution (MDI). The commercial banks' mortgage portfolio has also grown similarly, increasing from US\$ 32.4 billion (US \$ 1.9 million) in 2002 to US\$ 190 billion (US \$ 109 million) in 2007. The sector is however small in comparison to the increasing housing needs of country and it has principally been serving the middle and high income earners⁵. The lower income earners who constitute over 80% of the population have for long been left out of this bracket which is a reflection of the relatively weak foundations made by consecutive governments in building a sound housing industry for the mainly poor⁶ and rapidly growing population.

This report; i) explores how the housing finance sector in Uganda functions, ii) examines the effectiveness of housing finance in relation to the general housing conditions in the country, and iii) recommends a range of options for both public and private sector intervention geared towards enabling more efficient and effective housing finance services.

Key findings from the study

- Uganda's housing finance sector has substantially grown from one government owned institute to 4 commercial banks and 1 Micro-finance Deposit taking Institution. The sector is however small in relation to the housing needs of the country and it has principally been serving the middle and higher income earners. The average mortgage loan size issued by commercial banks is between US\$ 60 (US \$ 34,000) and 80 million (US \$ 46,000), an amount too high for the low income earners.
- Absence of adequate housing finance for the last 30 years and the weak foundations made by consecutive governments in building the country's housing industry have greatly crippled the formal private sector to such an extent that their contribution to housing delivery has been relatively insignificant.
- The country has not had major large scale real estate developers since the 1960's.
- The housing finance sector is still facing a major challenge of lack of long-term funding schemes within the domestic banking system and the nascent capital markets.
- Out of 5.2 million households in the country, only 0.68% can access mortgage loans through commercial banks, 19.95% can access housing micro-finance loans through Micro-finance Deposit taking Institutions, 7.2% can access loans from Micro Finance Institutions and Savings and Credit Cooperatives, 10.3% can only access loans through Savings and Credit Cooperatives only and 62.3% have no access to financial services.
- Housing demand in Uganda has been constrained by inadequate financial resources for both real estate developers and end buyers. The low income levels of most Ugandans have also constrained the demand side of housing.
- All the 5 commercial banks in the housing finance sector offer the following mortgage products: (i) house construction, (ii) house completion, (iii) home improvement, (iv) purchasing of houses, (v) equity release and (vi) refinancing mortgage. Their interest rates⁷ range between 16 and 19%. Housing Finance Bank and DFCU Bank are the largest players in the market and they partly source their long-term funds from the National Social Security Fund.
- Habitat for Humanity-Uganda is one of the NGOs that has been at the forefront of providing low-cost houses for the rural poor. It has built 4,500 houses in the last 2 decades through its 43 grass root affiliates in 19 districts.
- Through initiatives pioneered by Stromme Foundation and Habitat for Humanity Uganda, Micro Finance Institutions are to start a housing micro-finance product in which they will lend to low income earners up to US\$ 8 million (US \$ 4,600), payable between 2 to 5 years.

⁵ The average mortgage loan size in Uganda today is between 60 and 80 million, which can truly only be afforded by the middle and high income earners

⁶ 32% of Uganda's population is below the poverty line. According to the Poverty Eradication Action Plan (2004/5 – 2007/8), the poverty line in Uganda is defined by the level of expenditure needed to secure basic food consumption needs (taking into account regional variations in food prices) in a household and a corresponding level of non-food consumption.

⁷ Lending rates are the same across all income groups, though high income earners have higher bargaining power in lowering lending rates. Bank of Uganda's Repo rate was 8% as of March 2007.

- Government's role in the provision of housing for the poor has mainly been through self help projects like the Masese Project in Jinja, Makhulu Project in Mbale, Oli Project in Arua and the Mpumudde Project in Jinja. Its role has been in the provision of serviced land.

Key recommendations

- Avenues should be explored on how MFIs and SACCOs can be encouraged to lend for products like the incremental building loan.
- Low-income groups' capacities should be built to allow them engage in housing saving schemes.
- Small scale lenders (MFIs and SACCOs) should be promoted throughout the country in addition to encouraging and facilitating them carry out programs that increase financial literacy among the population.
- Like it was done in Ghana government with the support of development partners like Habitat for Humanity International and UN-Habitat should acquire substantial pieces of land that will be used for low income housing development projects like the Masese Project. Government could also set up similar projects like the Tanzania Women Land Access Trust (TAWLAT) in Tanzania in which low income earners acquired land and accessed credit for home ownership.
- For the urban poor, the Ministry of Housing can team up with international groups like Rooftops, Canada to facilitate and support the establishment of housing cooperatives in which individuals would obtain houses under conditions that suit their incomes

Dr W S Kalema of UMACIS Consultants in Uganda, prepared this report in the early half of 2008. The report is largely based on a desk review of existing sources as well as interviews with key respondents.

The intent of this document is to provide a general overview of Uganda's housing finance sector with a particular emphasis on how it functions with respect to the needs of low income earners. The report is neither definitive nor exhaustive – but rather a basis for engaging in further discussion regarding the housing finance sector in Uganda. Comments, challenges and perspectives are welcome. Comments or questions should be directed to the FinMark Trust's Housing Finance Theme Champion, Kecia Rust, by email to Kecia@iafrica.com, or on +27-83-785-4964.

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Acronyms and Abbreviations

ASCA	Accumulating Savings and Credit Associations	MDI(s)	Micro-finance Deposit Taking Institutions
BAT	British American Tobacco	MFPEd	Ministry of Finance Planning and Economic Development
BoU	Bank of Uganda	MFI(s)	Micro-Finance Institutions
CMA	Capital Markets Authority	NGO(s)	Non Government Organization
CRB	Credit Reference Bureau	NHCC	National Housing and Construction Company Ltd.
CPI	Customer Price Index	NIC	National Insurance Corporation
DFCU	Development Finance Corporation Uganda	NSSF	National Social Security Fund
EAC	East African Community	NSS	National Shelter Strategy
EACU	East African Customs Union	UCB	Uganda Commercial Bank
EADB	East Africa Development Bank	UML	Uganda Micro-Finance Limited
ERP	Economic Recovery Programme	USE	Uganda Securities Exchange
FIA	Financial Institutions Act	Ushs	Uganda Shilling (US \$ 1.00 = UShs 1,740, February, 2008)
GDP	Gross Domestic Product	RSCA	Rotating Savings and Credit Associations
HFB	Housing Finance Bank Limited	SACCOs	Savings and Credit Cooperatives
HFCU	Housing Finance Company of Uganda	SME	Small and Medium Enterprises
HFHU	Habitat for Humanity-Uganda	TAWALAT	Tanzania Women Land Access Trust
IFC	International Finance Corporation	TB(s)	Treasury Bills
IPO (s)	Initial Public Offers		

Overview of housing finance in Uganda

The Housing Situation (1960's to 1980's)

Dating back to the mid and late sixties, a time when Uganda had just attained her independence, government set up three institutions to deal with the increasing demand for housing caused by rapid urbanization⁸. These were:

1. The National Housing and Construction Company (NHCC) that was charged with building houses in response to the demand;
2. The Housing Finance Company of Uganda (HFCU) [now the Housing Finance Bank (HFB)] that was charged with providing related mortgage finance; and
3. The National Insurance Corporation (NIC) that was charged with providing insurance services.

To further boost the operations of these institutions, government established the Social Security Fund [now the National Social Security Fund (NSSF)] in 1967 to provide pensions and other security services. With the assistance from NIC, the Security Fund mobilized long-term savings that were intermediated by HFCU and other financial institutions to provide mortgage finance.

The primary function of these establishments was to create a credible housing industry in which houses would be built and sold to the public in addition to housing citizens employed in the public and civil service. For those that could not afford and those not employed in civil or public service, especially the poor, they took up dwelling in the underdeveloped parts of urban centers consequently creating informal settlements that are visible to date.

Regrettably, decades of economic instability and political turmoil that befell the country, starting in the early 1970s, interrupted the evolution of a strong housing industry. This was during the Idi Amin regime when the Asian commercial class and major international real estate contractors, including those from Israel, left the country.

More informal settlements have since emerged due to an increasing population, largely dominated by low income earners and also the poor management the above institutions that had set a firm platform for the growth of the housing industry. One prominent example of informal settlements are the tenements (mizigo) which consist of either a one stand-alone room or as connected building extensions of many commercial premises with an occupancy of up to seven adults⁹. Tenements meet the housing needs of low income earners.

The Housing Situation Today

The country has since 1986 made considerable strides in rebuilding its housing industry. While it is admitted that the formal housing industry is still small, it has gradually grown from one largely controlled by the government to one that is now market and private sector driven. In the last five years, the industry experienced an average record growth rate of 7%, with the exception of 2000/1 which recorded a 1.8% growth rate¹⁰.

A number of reforms like the review of the National Shelter Strategy of 1992 and the formation of a land tenure legal framework have continued to inform and guide the reconstruction of housing industry. These have encouraged home ownership in addition to improving housing facilities especially in the central region. In spite of this, the country still has very limited organized housing developments leading to the prevalence of slum dwellings especially in urban settlements. The growth of slums (to cater for poor and disadvantaged members of the community) combined with random and unplanned construction by the higher and middle class in residential areas has created a stock of houses that can neither be easily accessed nor marketed¹¹.

It should also be noted that there has been a high demand for rental housing as opposed to home ownership

⁸ Uganda's economy at the time registered rapid expansion, averaging 4.8% between 1960 and 1969. The civil service was also expanded substantially with the attendant housing demand

⁹ Situation Analysis of Informal Settlements in Kampala; Pg 19-20

¹⁰ The New Vision: Housing, Construction Sector Boom by Ricks Kayizzi. 20 Years of Economic Recovery

¹¹ Strategies for Facilitating the Financing of Affordable Housing in Uganda by the Private Sector by William Kalema; 2005

over the last five years. The number of Ugandans renting houses in urban areas has increased from 28% in 2002 to about 70% in 2007. This and a number of other factors have provided a strong impetus for commercial banks to enter the housing finance sector and develop it further.¹² Commercial banks' mortgage lending has since 2002 grown at about 45% annually.

At the micro level, the last ten years have seen an expansion of the micro-finance industry with more links growing between Micro-Finance Institutions (MFIs) and major commercial banks. With the exception of Uganda Microfinance Limited, which offers direct loans for home improvement, other MFIs have been doing some form of consumption lending which has unconsciously gone towards home improvements. This has enabled a considerable number of low income earners to finance their housing needs.

Overview of Uganda's macro economy

Uganda is located at the heart of East and Central Africa. It shares borders with some of Africa's economically important and resource-rich countries, from the mineral-rich Democratic Republic of Congo in the West and the rapidly growing economy of Southern Sudan in the north, to its major trading partners, Kenya and Tanzania in the east and south respectively. Some important facts:

- **Size and Population:** Uganda is a landlocked country with a surface area of 241,039 km², almost half the size of England. It has a population of approximately 31 million (CIA World Factbook; July 2007 est.), growing at a 3.3% rate, which is faster than other countries in the region. Rapid urbanization has gradually raised the country's urban population from 6.7% (634,952) in 1969 to 15.4% (3.8 million) in 2006¹³ consequently creating an increased housing demand and an estimated housing backlog of 550,000 units nationwide and 160,000 units in urban areas¹⁴.
- **Currency:** The national currency is the Ugandan Shilling (UGX). One US Dollar is equivalent to UGX 1,740, a Pound is UGX 3,200 and a Euro is UGX 2,800
- **Unemployment:** Uganda's unemployment rate is 1.9% of its 10.9 million labor force¹⁵. Out of 209,754 unemployed persons, 42.7% are male while 57.3% are female. Unemployment still predominates in urban areas at a rate six times higher than that of rural areas.
- **Education:** Uganda's literacy rate is relatively low (69%), with an estimated net primary enrollment ratio of 86% (an outcome of the introduction of the Universal Primary Education policy), 18.7% enrolled in secondary schools and 2.5% are enrolled in post secondary institutions.

State of Uganda's National Economy

Uganda has made substantial progress over the last 20 years in building a sound economic framework, which has notably allowed for both economic recovery and economic stability. Since 1987, government has undertaken a number of economic reforms to address policy deficiencies that were hindering accelerated economic growth. Among the most prominent ones was the Economic Recovery Programme (ERP) of June 1987, in which government liberalized foreign exchange markets, liberalized commodity trade, and privatized a number of parastatals among a number of other activities. As a result, the country has gradually transformed its economic structure as is seen by the now more organized private sector. Private sector investment, as a percentage of GDP, increased from 12.2% in 2000/1 to 16.9% in 2003/4 and 17.9% in 2005/6. Nonetheless, the nature and sequence in which these reforms were implemented has not allowed for a direct translation of economic growth into incomes for the poor.

The structure of the economy has gradually changed over the years from heavy reliance on agriculture to a more services oriented one as is shown in Fig 1 and Fig 2. During the last 5 years, the services sector registered the fastest growth among all sectors, at a rate of over 8% since 2003/04¹⁶. The communications and transport sub sectors are the major growth contributors to the services sector, spurring its growth at an annual

¹² Interview with Kanagwa James, Barclays Bank

¹³ Source: Report on the Housing Sector in Uganda by National Housing and Construction Company Limited, 2007

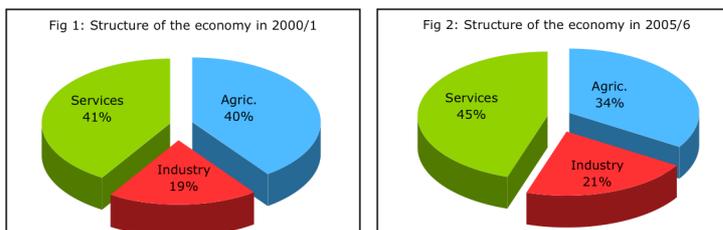
¹⁴ The New Vision: Real Estate back on its feet by Ricks Kayizzi, 2007

¹⁵ Source: Uganda National Household Survey 2005/2006; Report on Socio-Economic Module

¹⁶ Source: Background to the Budget 2007/8

growth rate of 22%. Efforts to diversify the economy have gained momentum. The country has also moved from one with only two major competitive sectors (cotton and coffee) to one with a growing basket of value added exports including processed fish, flowers, among others.

On Development Expenditure, the share of investment in GDP rose from 15.7% in 2002/03 to 22.5% in 2006/07, largely driven by higher private investment. Construction accounts for nearly two-thirds of investment expenditure, and this has greatly promoted the construction and housing sub sector¹⁷.



Source: Statistical Abstract 2007, UBOS

Economic Growth

Uganda has one of the fastest growing economies in Africa with a real Gross Domestic Product (GDP) at market prices averaging 6.5% per annum over the last decade¹⁸. This is largely attributed to good performances in construction, transport and communication, wholesale and retail trade services. In the World Economic Forum of 2006 Uganda ranked 4.5 (on a 7-point scale) in macroeconomic performance, well above the rest of Sub-Saharan Africa (average rank 3.7). The trend line in Fig. 3 shows how Uganda's GDP is relatively stable and has been slightly increasing over the last seven years.

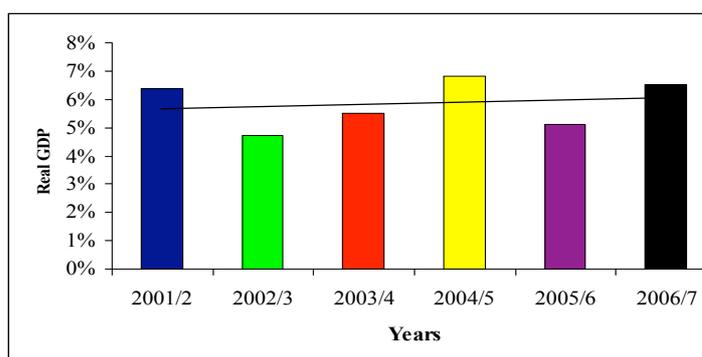


Fig. 3: Real GDP at Market Prices 2001/2 – 2006/7

Source: Bank of Uganda

Inflation

Rebased on the 2005/6 Consumer Price Index (CPI), annual underlying inflation in 2006/7 averaged 7.7%, a figure well above the government's annual target average of 5.0%, while headline inflation stood at an average of 7.6%. These rates were also higher than those of the previous year of 5.4% and 6.6% for annual underlying and headline inflation respectively¹⁹. The increase in inflation was mainly attributed to highly priced food items particularly fresh food items, an increase in transport fares, charcoal and petroleum products. In comparison with other countries in East African region, (Kenya - 14.5%; 2006 and Tanzania – 7.3%; 2006), the country's reformed macroeconomic policies, improved food situation and the recent discovery of oil are all expected to keep inflation low.

Table 1: Key Economic Data (UShs millions, US \$ 1.00= UShs 1,740) from 2003/4 to 2005/6

Source: Ministry of Finance

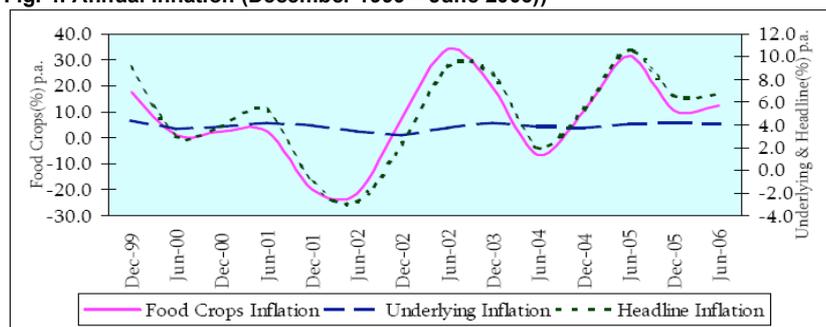
Item	2003/4	2004/5	2005/6
Population (millions)	25.6	26.5	27.4
Real GDP growth (%)	4.4	5.7	6.7
Monetary GDP (Billions)	2,587,260	2,811,110	3,271,610
Domestic Credit on Government	68.2	-176.3	-112.7
Domestic Credit on private sector	1,010.0	1,150.2	1475.5
Domestic Credit on Parastatals	13.6	8.1	19.5
Broad Money Supply (M3)	2,587.3	2811.1	3,271.6
Broad Money Supply (M2)	1,924.9	2,157.86	2,564.96
Net Foreign Assets	2,370.54	2,647.01	3,0373.61
Domestic Credit	1,092.16	1,054.29	1,382.28
Government Securities	-	112.4	129.7
Overall balance of payments	192.2	243.3	156.1
Merchandise exports (as % of GDP)	12.4	8.2	11.5
Merchandise imports (as % of GDP)	26.6	21.3	
Inflation rate (%)	5.7	5.0	8.0

¹⁷ The ongoing transformation of the East African Community (EAC) is expected to boost the country's economy greatly. In 2005, Uganda, Kenya and Tanzania launched the East African Customs Union (EACU) which will remove internal tariffs and harmonize external duties. The EAC is also expected to give Uganda access to a market of 130 million customers.

¹⁸ Source: Poverty Eradication Action Programme (2004/5 – 2007/8)

¹⁹ Source: Background to the Budget 2007/8

Fig. 4: Annual Inflation (December 1999 – June 2006)



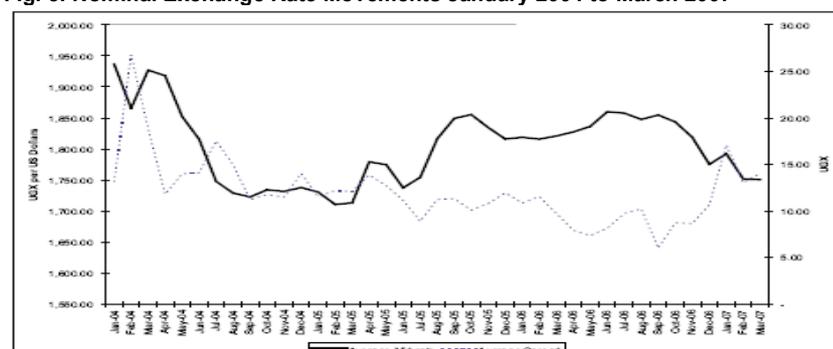
Source: Uganda Bureau of Statistics

Exchange Rates

The value of the Uganda shilling has in general terms remained stable against major international currencies over the last decade or so. This was largely prompted by government’s decision to fully liberalize the foreign exchange market which in turn entailed liberalization of all capital accounts transactions. This further strengthened the performance of the shilling against major foreign currencies including the US dollar, the UK pound, the Euro and those of the East African Region like the Kenya and Tanzania shillings and the Rwandese francs.

Nonetheless, large inflows of foreign exchange²⁰ have, over the last five years, put a lot of upward pressure on the Shilling. As at end June 2006, the average monthly inter bank mid-rate was US\$ 1,860 per US dollar, but appreciated by 5.9% to Ushs 1,751 per US dollar in March 2007²¹ compared to 4.8% depreciation from 1,737.8 per US dollar in 2004/5 to Ushs 1,820.6 per US dollar in 2005/6²².

Fig. 5: Nominal Exchange Rate Movements January 2004 to March 2007



Source: Bank of Uganda

Financial Sector

Uganda’s financial sector is categorized under 8 groups; the Central Bank, Commercial Banks, Credit institutions, Insurance companies, Pension Schemes, Development Banks, Foreign Exchange Bureaus and Micro-finance Deposit taking Institutions. Though growing, the sector is still small with few volumes of transactions undertaken annually, few financial products and it is largely dominated by commercial banks. Public confidence in the sector however continues to improve as is demonstrated by the increasing deposits in commercial banks and the steadily growing range of products offered by this sector.

The Banking sub-sector

Uganda has 16 commercial banks, which account for over 75% of financial assets in the financial sector. The banking sector is characterized by a large share and a high concentration of foreign ownership with 9 out of the 16 commercial banks foreign owned. As at June 2006, four foreign-owned banks dominated the banking sector

²⁰ Foreign exchange inflows are from the export sector, Non Government Organizations (NGOs), and offshore investments in Uganda government bills and bonds

²¹ Source: Background to the Budget 2007/8

²² Source: Bank of Uganda

in Uganda and accounted for 66% of total sector assets, 54% of loans and advances and 62% of deposits²³. The latest entrants in the market are Kenya Commercial Bank and Housing Finance Bank (HFB) Ltd, formerly known as HFCU. The latter is offering more mortgage related services in addition to other banking services. Traditional bank deposits represent the major form of financial savings in Uganda.

Table 2: List of Licensed Local Banks

Local Banking Institutions	
<ul style="list-style-type: none"> ▪ Centenary Bank ▪ Crane Bank ▪ Diamond Trust Bank (U) Ltd. ▪ Tropical Africa Bank Ltd. 	<ul style="list-style-type: none"> ▪ Housing Finance Bank Ltd. ▪ National Bank of Commerce ▪ Orient Bank
Foreign Banking Institutions	
<ul style="list-style-type: none"> ▪ Bank of Africa ▪ Barclays Bank (U) Ltd. ▪ Citibank (U) Ltd. ▪ Kenya Commercial Bank ▪ Standard Chartered Bank (U) Ltd. 	<ul style="list-style-type: none"> ▪ Bank of Baroda (U) Ltd. ▪ Cairo International Bank ▪ DFCU Bank Ltd. ▪ Stanbic Bank (U) Ltd.

Source: *Bank of Uganda*

Deposits

Commercial banks deposits increased from US\$ 2,437.9 billion in 2004 to US\$ 2,595.1 billion in 2005 accounting for 6.4% expansion. The growth in deposits was largely reflected in time and savings deposits, which grew by US\$115.7bn or 29.3% and US\$73.8bn or 17.6% respectively²⁴.

Distribution of Loans and Advances

Credit extensions stood at US\$ 1,258 billion (0.13% of the total mortgage portfolio) in 2005 reflecting a 28.8% increase (281 billion) from 967.7 billion loaned out in 2004. The services sector drew the biggest portion of credit amounting to US\$ 524.6 billion (41.7%) of the total loan portfolio, up from US\$ 402 billion (41.1%) recorded during the previous year. Loans to the manufacturing sector grew marginally from US\$ 219.1 billion in 2004 to US\$ 240.6 billion in 2005²⁵. Trade and commerce ranked third in outstanding credit, with a share of US\$ 183.5 billion (14.6%) of total loans up from US\$ 145.8 billion (14.9%) registered in 2004. The share of credit to agriculture and transport sectors stood at 12.5% and 7.5% respectively at the end of 2005. Extensions to building and construction sector stood at 4.5% in 2005 up from 4.0% the previous year.

Liquidity

In 2005, the overall liquidity of commercial banks was satisfying with liquid banking assets growing by US\$ 20.3 billion (1.3%) from US\$ 1,537.7 billion in 2004 to US\$ 1,558 billion in 2005. However, the ratio of liquid assets to total deposits marginally reduced from 63.1% in 2004 to 60.0% as in 2005 on account of a proportionately much higher increase in deposits. The lending ratio went up from 37.4% to 46.3% during the same period²⁶.

Growth of Uganda's banking industry has experienced an upward spiral over the last 15 years. In the last five years, assets of the industry increased from US\$ 2.4 trillion in 2002 to US\$ 4.4 trillion in 2006. The industry has also partially moved from one concentrating its profits in government Treasury Bills to one that now engages more in retail mortgage lending.

Net Foreign Assets

The net foreign assets of the banking system increased by 12.9% between December 2005 and June 2006 from US\$ 2,730.4 billion to US\$ 3,084.4 billion. The net foreign assets of Bank of Uganda rose by 18.3% to US\$ 2,624.8 billion of which foreign reserves rose by 7.5%. A major part of the increase in foreign assets constituted net inflows of donor budget support and IMF funds. At the commercial bank level, net foreign assets declined by 10.2% to US\$ 459.6 billion over the same period.

²³ Source: African Peer Review Mechanism Report, 2007

²⁴ Source: Bank of Uganda

²⁵ Source: Bank of Uganda

²⁶ Source: Bank of Uganda

Overall Balance of Payments

In the second half of 2005/6, overall balance of payments recorded a surplus position of US \$ 186.1 million compared to a surplus of US \$ 110.8 million recorded over the same period in 2004/5. This is a result of improvements in the capital and financial accounts which recorded a surplus of US \$ 238.1 million during the second half of 2005/6 compared to the US \$ 181.7 million recorded over the same period in 2004/5²⁷. On a fiscal year basis, in 2005/6, the capital and financial account balance was at a surplus of US \$ 428.5 million, a 15.7% higher surplus than that of 2004/5 which was US \$ 370.2 million.

Foreign Reserves

As at June 2006, gross foreign exchange reserves were at US \$ 1,408.1 million, an increase of US \$ 82.6 million compared to what was recorded in June 2005. These reserves are estimated to cover 6.5 months of future imports of goods and services, up from 6.1 months of import cover registered during June 2005. This increase is however due to increased budget support, less than the projected sale of foreign exchange in the IFEM and debt forgiveness from IMF, amounting to US \$ 126 million.

Foreign Direct Investment

The regeneration of Uganda's economy has since the 1990's allowed for the incorporation of investor friendly policies which have been geared towards the promotion and strengthening of broad-based private sector led development. Foreign Direct Inflows (FDI) have grown from about US \$ 82 million in 1990 to US \$ 307 million in 2006²⁸. This has helped to increase Uganda's GDP from 17% to over 22% of export growth in the past four years.

Interest Rates and Bank of Uganda Treasury Bills/Bonds

Prime interest rates have for the last 3 years fluctuated between 16% and 19% partly due to an increase in competition in the financial sector and a decline in Treasury Bills rates. Seven years ago, prime interest rates were at 21%. This is a suggestion that rates will further fall as competition in the sector stiffens. Table 3 below shows lending rates and TB rates over the last three years.

Table 3: Lending Rates and Bank of Uganda Treasury Bills

Type of Interest	2005	2006	2007
Prime lending rates	16	18	19
Commercial bank rates	18.1	18.9	18.8
Commercial bank mortgage rates	16	19	16
Treasury Bills (91 days)	9.1	9.9	8.43
Treasury Bills (182 days)	10.2	8.4	11.2
Treasury Bills (273 days)	-	-	-
Treasury Bills (364 days)	13.5	12.26	11.8

Source: Bank of Uganda

Commercial banks lending rates have also been high and a persistent problem to the growth of the private sector. They have greatly affected borrowing across all sectors and they have been considered a big disincentive to the development of the relatively new housing finance sector. The high lending rates are largely attributed to four major factors:

- i) The large and increasing size of government's fiscal deficit which allows commercial banks the option of investing in low-risk government securities rather than lend to the private sector;
- ii) The perceived high risk of lending to the private sector and absence of an entrenched Credit Reference Bureau (CRB)²⁹;
- iii) Lack of competition and dynamism among commercial banks since they are satisfied with serving stable and well positioned market segments; and
- iv) The high operating costs from modernization, expanding outreach and the low income base of customers.

A number of vital steps have however been taken to solve the problem of high commercial bank interest rates.

²⁷ Source: Bank of Uganda

²⁸ UNCTAD Investment Report, 2007

²⁹ In 2004, DFCU Bank lost close to US\$ 200 million (US \$ 115,000) to loan defaulters. Customers could borrow from it (DFCU) and other banks with ease because the country lacked a Credit Reference Bureau which could be used sort out prospective borrowers that had defaulted with other banks. In practice, customers could use a loan from DFCU Bank to service another loan from a different bank and so on. Good enough, the process of setting up a Credit Reference Bureau by Bank of Uganda is nearing the final stages of completion and the country will have one by the end of this year.

These include:

- i) Government has increased capitalization of Uganda Development Bank³⁰ by US\$ 20 billion (US \$ 11.5 million) in the past 2 years. The lending rates at UDB are lower than those of commercial banks and are intended to assist small and medium investors to access medium and long term funds;
- ii) Government has committed itself to support Savings and Credit Cooperative Societies (SACCOS) with the necessary infrastructure in order to reduce their cost of establishment so that they can lend at lower interest rates since they will have lower overhead costs; and
- iii) Government has lifted the ban on entry into the commercial banking sector³¹ in order to increase competition.

Through Bank of Uganda, the securities market has been active to control money supply growth and inflation. Commercial banks' trading in Treasury bills has however gradually reduced over the last 5 years following a sharp decline on the interest rates at which they are offered. In January 2001, the average interest on a 364 day Treasury bills was 34% as compared to 9% in 1998/9 and 11.8% in 2007.

By the end of June 2006, the Treasury bills stock was at US\$ 1,161.1 billion (a figure slightly higher than the total loans issued by commercial banks) up by 8.2% from US\$ 1,068.4 billion at end December 2005. Commercial banks held 53.7 percent of the total stock of Treasury bills compared to 59.4 percent reported in December 2005³².

Micro-finance Deposit taking Institutions (MDIs)

The MDI Act adopted in 2003 has to date allowed 4 MFIs become regulated deposit taking institutions. Between December 2005 and December 2006, total assets of the four licensed MDIs grew by US\$ 24.9 billion (24%) from US\$ 103.7 billion to US\$ 128.6 billion. Total customer deposits also increased by US\$ 7.7 billion or 50 % from US\$ 15.5 billion to US\$ 23.2 billion between December 2005 and December 2006, while total loans went up by US\$ 13.7 billion (21.7 %) from US\$ 63.2 billion to US\$ 76.9 billion between December 2005 and December 2006. Total borrowings stood at US\$ 41.3 billion up from US\$ 32.7 billion between December 2005 and December 2006. The MDIs' net profit was US\$ 3.2 billion up from US\$ 1.1 billion recorded on December 2005. Overall, liquidity of the MDIs was satisfactory with a liquid assets surplus of US\$ 21 billion as of 31 December 2006.

Capital Markets Developments

The Uganda Securities Exchange (USE) is Uganda's only stock exchange. The USE has been in existence for slightly over 10 years; founded in June 1997. Trading on the USE started in January 1998 with one listing - a bond issued by the East African Development Bank. The USE currently has 6 local companies and 3 cross listed from the Nairobi Stock Exchange trading as well as over 25 Treasury and Corporate bonds.

The companies listed on the USE include in the financial services sector: (Bank of Baroda (U) Ltd, DFCU Group, Stanbic Bank); manufacturing (Uganda Clays Ltd., BAT (U) Ltd, East Africa Breweries Ltd); insurance (Jubilee Holdings Ltd.); printing and publishing (New Vision Printing and Publishing Corporation Ltd.); and aviation (Kenya Airways Ltd). East Africa Breweries Ltd and Kenya Airways are cross-listed at the Nairobi Stock Exchange and the Dar-es-Salaam Stock Exchange. Table 2 below shows market activity of USE over the last three years. In addition to the existing companies on the USE, there are four Initial Public Offers (IPOs) planned for this financial year namely, Uganda Telecom, Kinyara Sugar Works, National Insurance Company and Housing Finance Bank Ltd (a 30 billion bond)

³⁰ The capitalization of UDB will have a minimal effect on the operations of commercial banks. For example, the 20 billion injected in UDB is only a tenth of the mortgage portfolio of the five commercial banks offering mortgage services. Additionally, commercial banks target well positioned segments of the market and they are satisfied with this. UDB will be assisting SMEs access medium to long term funds

³¹ According to the Housing Finance Bank (HFB), it had for the last three years pursued a license for a commercial bank and it successfully acquired it last year. HFB's decision to enter in the commercial bank sector is to access more customers and not necessarily because of Government's decision to lift the ban on entry into the commercial bank sector.

³² Source: Bank of Uganda

Table 4: Market Activity of Uganda Securities Exchange over three years

Source: Uganda Securities Exchange

Year	2004/5	2005/6	2006/7	Growth 05/06-06/07
Listed Companies	7	8	9	13%
Volume of Shares Traded	7,726,579	11,527,947	233,901,853	1,929%
Turnover (UGX billion)	3.3	7.7	43	454%
Market Capitalization (Billion US\$)	3,014	3,996	4,641.96	16%
USE All Share Index	622.28	800.52	869.01	9%

The capital markets industry is however very small with a total market capitalization of US\$ 4,810.4 billion as at 30 August 2007. It has also got a low turnover (turnover was US\$ 740.9 million on 30 August 2007) and a modest pipeline of potential supply generated by the privatization process. There are still enormous challenges with private sector utilization of capital markets to raise capital. These include a general lack of understanding of capital markets, poor governance and financial reporting mechanisms in most privately owned companies as well as reluctance to give up equity control.

Pension Schemes

In the pension schemes sector, businesses are supported through the statutory NSSF, which is a mandatory provident fund. Employees of medium companies³³ are required to contribute 5% of their gross monthly salary and employers to contribute 10% of the total monthly salary of each employee to the Fund. The combined pension related funding aggregates to about 2% of GDP.

In addition to investing in short-term Government securities and property, NSSF has also acquired 50% equity investment in HFB to enable it channel its long-term funds into the housing market. It has also got 5% and 11% shares in Stanbic Bank and DFCU respectively. In 2007, NSSF bought 5% shares in the Serena hotel³⁴ and it is planning on buying into a strategic local bank to broaden on its services to its members.

The Fund's net worth has consistently grown since 1999 at approximately 30% per annum from US\$ 145.5 billion to US\$ 514 billion (approximately 10% of the total assets of commercial banks) as of 30 June 2005 and the annual interest paid on members' accounts has increased from 3% in 1999 to 7% in 2005. The NSSF has however been considered inefficient³⁵ and noted for failing to protect Ugandan employees' post-retirement packages.

Today there are more than 50 private occupational schemes of estimated value of US\$ 60 million that have been established by corporations³⁶, which confirms that there is strong demand for private pension schemes as an alternative to the NSSF and a viable mechanism to ensure the availability of more long-term savings in the economy. This should in turn increase the efficiency with which pension funds are invested, bringing greater long-term capital³⁷ to the financial market, and raising the level of private sector investment.

Uganda's policy and regulatory framework

Regulatory Overview of the Financial Sector

Financial institutions

Bank of Uganda (BoU) regulates the financial services sector in accordance with the Financial Institutions Act (FIA), 2004. The Act is based on modern banking legislation and it addresses shortcomings in previous legislation like requirements that could increase the possibility of political interference in key prudential decisions. The enactment of this Act also gave birth to mortgage lending by allowing commercial banks issue long-term loans.

³³ A Ugandan Medium company employs above five individuals

³⁴ See the New Vision of November 8th 2006

³⁵ NSSF's inefficiency is notable in the time it takes pensioners to receive their retirement packages – instead of three months, it can take up to a year from the time they submit their claim. In some cases, individuals have given up on their retirement packages because of such delays.

³⁶ A case of Uganda: Balancing the Pressures of Different Stakeholders, World Bank Conference on Aligning Supervisory Structures with Country Needs, Candy W. Okoboi, Director, Legal, Policy and Compliance, CMA

³⁷ Uganda does not have pension backed loans as an alternative to mortgage loans

The monitoring and supervision of financial institutions is implemented by the Supervision Department of the BoU. Overall, the financial services sector is effectively supervised using the Risk-Based Supervision approach. Through this approach, BoU has been able to precisely design an appropriate risk matrix for each of the supervised financial institutions, which has then been used to identify significant activities, the type and level of inherent risks, the adequacy of the risk management system and the likely overall direction of risks during the next one year³⁸.

Licenses are issued in classes in order to reflect the permitted main financial services provided or business conducted by the licensed financial institution. This is done in accordance with the FIA, 2004.

According to a 2003 IMF report on the observance of Standards and Codes, the major challenge in supervision were the delays involved in moving decisively and making full use of the available remedial powers in case of a problem. The same report noted that there is a generally appropriate framework for commercial law although the Bankruptcy Act is outdated and in need of revision.

Uganda's banking system is on the whole healthy and has improved remarkably following the closure of several distressed banks³⁹, putting in place substantial improvements to banking supervision and the privatization of the Uganda Commercial Bank (UCB) in September 2002 to a reputable international bank.

Microfinance Deposit-Taking Institutions

Through the Microfinance Deposit-Taking Institutions (MDI), Act 2003, the operations of MDIs have for the last 3 years been supervised by BoU. The Act enables MFIs to become licensed to take intermediate savings. It however only allows MFIs that meet prudential requirements to mobilize deposits for on-lending and currently only four of the largest MFIs are licensed to be MDIs.

Micro-Finance Institutions

MFIs are very small institutions that include multipurpose NGOs, cooperatives and informal organizations. They are limited by liquidity and consequently offer short-term loans. The Ministry of Finance Planning and Economic Development (MFPED) is in the process of strengthening them through improving on their operational efficiency by providing capacity building in the areas of book keeping, financial and business management, among others.

Housing Policy

Since the 1960s, four major policies have been pursued by succeeding governments to enhance the quality and quantity of housing facilities in the country. These policies have consecutively informed and guided the country's housing industry to one that now recognizes the role of the private sector in developing this industry. They have however not remarkably improved on the standards of industry as most of them were endorsed to specifically respond to the deteriorating situations in the housing sector than to credibly transform the whole industry as is shown below.

The land tenure system and the constitutional legal framework of the 1960s were among the first regulations made to address the increasing housing demand in the country. Boosted by policies like the "move to the left" outlined in the Common Man's Charter under the Obote I regime⁴⁰, they reaffirmed government's role in the provision of housing and as a result, a greater role for provision of urban housing was assigned to public entities including the NHCC.

The National Human Settlement Policy was the second policy pursued by government to further improve on the social economic status of its citizens. It was drafted in 1979 to improve on access to infrastructure and services and to provide adequate residential land and plots in urban areas. The policy was implemented through two projects; the upgrading of Namuwongo low-cost housing in Kampala and the Masese Women's Self-Help housing projects in Jinja. Unfortunately, efforts of this policy were not long-lived as the land tenure system and the subsequent fall of the economy in the 1970s and 1980s marked a decline in government's central role in the

³⁸ Source: Bank of Uganda Supervision Function Annual Report, 2004

³⁹ Between 1998 and 1999, four commercial banks: Greenland Bank Ltd, International Credit Bank Ltd, Trust Bank Ltd and Co-operative Bank Ltd, were closed by Bank of Uganda because of insolvency and poor management.

⁴⁰ Guaranteeing the Right to adequate Housing and Shelter: The Case of Women & the People with Disabilities (PWD), Henry Onoria, Pg 14

provision of decent housing and promoting housing investment till the 1990s.

In 1992, government adopted the National Shelter Strategy (NSS) which comprised of the National Housing Policy and a program for the improvement of housing conditions to ensure adequate shelter for all by 2000. The NSS was based on an “enabling approach” where government only played the role of facilitator as well as regulator. Through the NSS, government attempted to identify and removed stumbling blocks that hindered housing development through encouraging private sector participation in the development of the housing industry.

In comparison to the two previous policies, the NSS was more specific to the housing needs of the country. Under this policy, Government was able to put in place a legal and regulatory framework addressing the land tenure (and security of the tenure); encourage the acquisition of private home ownership and improve access to housing on a self-financing recovery basis⁴¹. Efforts of this policy were further boosted by the enactment of the 1998 Land Act, the condominium Act and in the promotion of house financing environment and facilities.

Notwithstanding the above, the NSS did not address the housing needs of the urban poor sufficiently. As a facilitator and sector regulator, government did not adequately address the housing needs of its citizens across all income categories. Only two income groups were strongly advantaged; the affluent and the middle income earners who have gradually put pressure on urban shelter through privatization⁴². Through the Condominium Act, these two groups were able to buy a pool of houses in areas of Kololo, Naguru, Bugolobi, and Nakasero⁴³ at exorbitant costs that the urban poor could not afford.

Also, the Strategy’s main focus was for government to dissociate itself from its earlier commitment of providing housing to civil servants, which it did. This meant that civil servants would meet their housing needs through the private sector and individual home ownership. Government did not however assess their (civil servants) readiness and ability.

In 2005, the NSS was reviewed and a draft National Housing Policy was prepared. Unlike the NSS, this policy specifically ensures that all Ugandans own and have access to affordable decent housing with secure tenure in sustainable human settlements. It addresses issues that were not tackled by previous policies, where affordable housing needs for low income earners, especially those in informal settlements are catered for. Its major attributes include; slum upgrading, the private nature of housing, enforcement of minimum standards that will prevent overcrowding and the improvement of standards of living of the urban poor. The policy also recognizes the role of the private sector in the provision of housing on a commercial basis. Progress in the development of this new policy is yet to be evaluated.

The principles and proposals of the National Housing policy are expected to tremendously transform the country’s current and future housing needs and they strongly reflect government’s desire to create an enabling environment that would enhance the capacity of the private sector to deliver quality affordable housing. Once it is adopted as a policy, it will be important that legislation, regulation and guidelines for housing are amended to incorporate changes it will have introduced.

Mortgage Bill

The legal aspects involved in the amended mortgage bill that is to be passed this year are expected to impact negatively on the growth of the housing finance sector through the banking industry and most banks are considering them a disincentive in engaging in mortgage activities. For example, some conditions like the need for spousal consent before a mortgage is carried out can be problematic. Also, provisions of giving the court leeway to re-interpret some of the terms of the loan agreement and allow a mortgagor rent out the property and benefit from the rental proceeds instead of realizing their security are not conducive.

⁴¹ Guaranteeing the Right to adequate Housing and Shelter: The Case of Women & the People with Disabilities (PWD), Henry Onoria, Pg 19

⁴² Impact of Macro-Adjustment Programmes on Housing Investment in Kampala City-Uganda: Shelter Implications for the Urban Poor by Augustus Nuwaga, 2000

⁴³ The divesting of government’s role in the provision of housing saw it selling off houses in the above areas

Employment and household incomes

According to the 2005/6 National Household Survey, 10.9 million Ugandans were in the labor force, the majority predominately based in the rural areas (85%). Unemployment is at 1.9%.

Table 5: Employment Status of Working Population 14 – 64 years in 2005/6

Employment Status	Number of persons	% of total labor force	% of total Population
Self employed in agriculture	7,530,759	69.2	27.7
Self employed in non-agriculture	1,403,855	12.9	5.2
Permanent employee	466,187	4.1	1.7
Temporary employee	1,207,969	11.1	4.4
Not stated	54,413	0.5	0.2
Unemployed	206,770	1.9	0.76
Total Labor Force	10,849,952	100	40

Source: Uganda National Household Survey, 2005/6

From the housing finance perspective, Table 5 shows that permanent employees (4.1% of the labour force and 1.7% of total population) substantiate themselves from all other employment categories in qualifying for housing finance since banks require an individual to be in permanent employment before they can access these services. This inference is however too broad as banks also require permanent employees to earn above a certain threshold before they can qualify for housing finance. In the next sections, we further examine segments of the population that automatically qualify for housing finance.

Household Income

Uganda's large informal sector (over 80% of the population) makes it difficult to estimate exact income levels of individuals and the fact that many employed persons also engage in extra activities to supplement their incomes makes it even more challenging. Nevertheless, results from the 2005/6 National Household Survey estimated the combined monthly average household income⁴⁴ at US\$ 170,891 (US\$ 98). The Capital City, Kampala recorded the highest monthly income per household of US\$ 347,918 (US\$ 200) while the central region (excluding Kampala) recorded a monthly household income of US\$ 209,369 (US \$ 120).

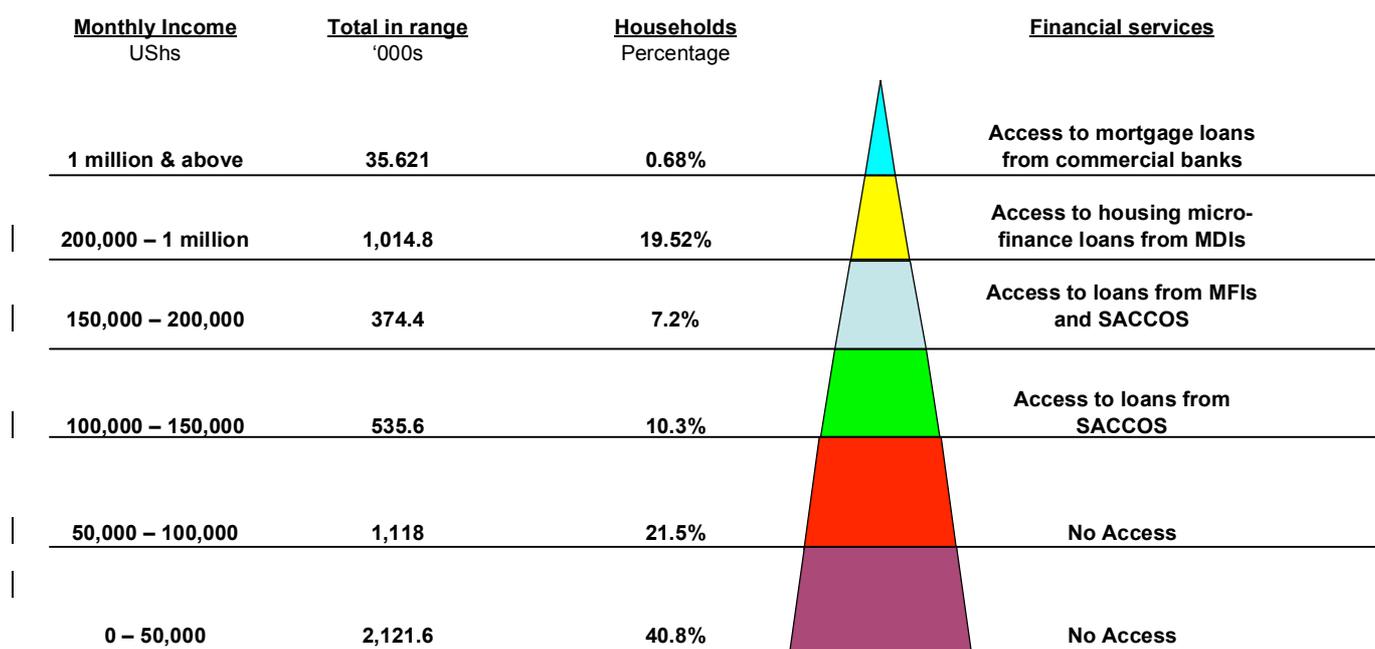
Table 6: Households earning above US\$ 200,000

Mean Monthly Income (000's)	Estimated number of Households
200 – 400	964,907
400 – 600	24,989
601 – 1,000	24,883
1,001 – 2,000	20,909
2,001 – 3,000	6,873
Above 3,000	7,839
Total	1,050,400

Source: National Social Security Fund and the 2005 National Household Survey

Since all commercial banks require an individual to have a monthly salary of at least US\$ 1 million (US \$ 575) to access a mortgage loan, then as it is shown in Table 6, (red circle) and the income pyramid below, less than 1% of the country's households (35 621 households) can qualify for a mortgage loan.

⁴⁴ According to the Uganda Bureau of Statistics, over 90% of the households in the country have one income earner (the household head); hence our analysis uses household incomes to determine who qualifies for mortgage loans. Data on individual incomes is not available and it is not captured in any of the publications we have reviewed.



Access to Financial Services in Uganda

The weak infrastructure built by Ugandan financial institutions has only allowed them relatively sufficiency in urban centers and a finite presence in rural areas. With the exception of the Kampala area, the average number of bank branches per district is 2, most of which are located at the district headquarters⁴⁵. Consequently, less than 10% of Uganda’s population has access to formal banking services and only 8% of the rural households have bank accounts.

As noted in section 2.1.9, commercial banks have over the last ten years greatly profited from investment in government Treasury bills as opposed to private sector lending and financing business activities. The lack of competition and the low levels of dynamism and professionalism in the banking industry have resulted in almost all commercial banks specializing in few and similar products that exclude low-income earners. For example, commercial banks pay a 5% interest rate on the client deposits while interest on loans stands at 16% and above per annum. This is a disincentive to would-be depositors amongst low income earners.

Also, the high bank infrastructure costs, the assumed low demand for financial services in rural areas and a prevalence of insecurity in these areas have all limited the provision of financial services to low income earners. Bank infrastructure is expensive to set out in rural areas as it needs high transaction volumes to be profitable. Today, mostly Tier I banks have rolled out ATM banking in the country, the majority (60%) being in Kampala⁴⁶.

Nonetheless, some commercial banks like Stanbic⁴⁷ Bank Uganda (formerly owned by the Government as Uganda Commercial Bank) and Centenary Bank have continued servicing low-income clients through their adequately spread branches in both urban and rural areas. These banks have a product mix that includes micro-finance services. Also, banks like Barclays have opened up “Mass Market Products” which encourage low income earners to access their services⁴⁸.

At the microfinance level, the MFI industry is fairly well-developed and diversified involving 2 commercial banks, 4 non-bank financial institutions, up to 100 NGO-type organizations and over 700 Savings and Credit

⁴⁵ See Mpanga, 2004, Pg 6: “Demand for Credit in Rural Uganda: Who Cares for the Peasants”

⁴⁶ Source: Bank of Uganda, Distribution of ATMs Countrywide

⁴⁷ Stanbic Bank Uganda has 67 branches countrywide

⁴⁸ Barclays Bank and a number of major banks in the country have moved their initial deposit for savings accounts from between UShs 100,000 (US \$ 58) and UShs 500,000 (US \$ 287) to UShs 10,000 (US \$ 6)

Cooperatives (SACCOs). These institutions are however concentrated in per-urban areas. Also, the industry is very small relative to the needs of the rural and microfinance sub-sectors with relatively few branch locations.

Accessing finance through informal sources is now a common practice for both the rural and urban poor. Common examples include borrowing from family members, rotating credit societies and saving clubs. They function on a revolving fund mechanism mainly to boost small scale businesses and in some cases they enable people build houses, and meet other basic needs. The box below describes a commonly used method (nigiina) in accessing finance informally in the slums of Kampala⁴⁹.

How “Gifting Circles” (Revolving Fund) Works

One of the most commonly used methods of mobilizing savings in urban areas is through “gifting circles” locally known as “nigiina”. These circles constitute a group of 12 individuals or more who meet on say a monthly basis and gift each other possessions like domestic appliances, money or services like house construction or land cultivation to boost one’s income. The first meetings held among members involve electing a committee (a chairman, a treasurer and a secretary) that guides members on how and when gifts/money that have been saved by individual members over a period of one month will be distributed. In the case of services, they are usually offered when a member wants a service instead of a gift or money. The group then votes who will be the first beneficiary, the second, until all members benefit. Gifts, money and services are then distributed/offered on a revolving basis. All gifts/money from members are openly displayed at a party organized for the purpose of gifting and socializing. In the case of services, socializing is usually done after the service is offered.

This method also operates on a principle that the worth of gifts, money or services an individual contributes is the same worth given back to him or her when his or her turn to benefit reaches. There is however no guarantee that one will receive as much as he or she offered to others in gifts. There have been instances where such groups have collapsed before every member is gifted.

In 2006, FinScope Uganda carried out a survey on access to financial services among 2,959 respondents aged 18 years and above. The survey found the following:

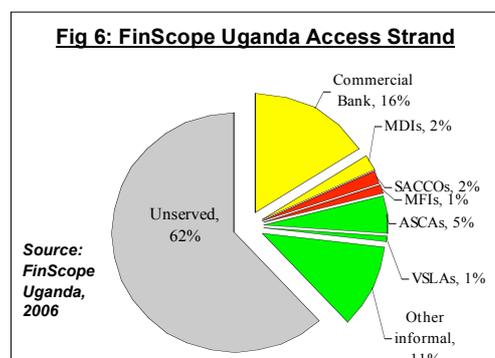
- Almost two thirds (62%) or 8.1 million Ugandans are financially unserved (Fig 6), making them along Tanzanians – the most financially unserved people in East Africa;
- 18% (2.4 million Ugandans) are formally served;
- 3% (half a million Ugandans) are semi-formally served and
- 17% (2.2 million Ugandans) are informally served.

Of the 38% that were financially served, 42% accessed formal financial institutions like commercial banks, 3% used credit institutions and 8% used MDIs. Semi-formal institutions served 13% of the financially served population (8% in SACCOs and 5% in MFIs) while 3% were served by money lenders. The majority (58%) accessed financial services from informal financial institutions like Rotating Savings & Credit Associations (RSCA) and Accumulating Savings & Credit Associations (ASCA).

It should also be noted that all individuals that accessed formal financial services additionally accessed both semi-formal and informal institutions while all those that accessed semi-informal institutions also accessed formal and informal financial institutions.

Financial products and services that were used included: savings (71%), credit (33%), money transfer (29%) and insurance (6%). Informal products were however much more common than formal ones. For example, 71% of those that were saving were doing so informally.

In relation to housing finance, the survey found that 6% of individuals that were saving were doing so to purchase, build or rent a house while 10% that had taken out loans were for either improving on a house, purchasing a house, purchasing land or building a house.



⁴⁹ Source: Situation Analysis of Informal Settlements in Kampala

In conclusion, financial sector deepening in Uganda is still very low and as a result, less than half of the population has access to financial services. In addition, informal financial institutions like ROSCAs and ASCAs, with inefficient means of transactions and saving dominate among the population accessing financial services. This has in turn constrained access to formal housing finance among low income earners which is crucial in deepening Uganda's financial system.

Housing supply and demand

Housing supply

Urban Areas

Uganda has not had a well-managed scheme on the supply of housing for over the last 25 years. The country's current housing supplies are still basic and poorly managed. The country has very few organized real estate developers, such as Akright Projects (Table 7), and a number of individuals who play a relatively substantial role, but whose activities can not be easily quantified. Coupled with inadequately funded physical planning and the lack of capacity to deal with the challenge of urban development, the housing stock in urban areas is generally of poor quality, making it unattractive to primary mortgage providers and a disincentive to the development of secondary mortgage providers⁵⁰.

The low quality of housing in the country today mirrors the low income levels and the use of own savings to undertake construction incrementally. Most Ugandans are unable to access housing finance to invest in house improvement, house purchase or house completion. This is attributed to the fact that conditions set by commercial banks for accessing loans are not achievable; for example, many Ugandans are not in salaried jobs while many earn below the required qualifying incomes for mortgage loans. In addition, collateral requirements by lending institutions, including commercial banks, are a major challenge to many would-be borrowers.

Uganda's land tenure systems have also presented a major hurdle to the supply of decent housing stock, especially in urban areas. Most land in urban areas is privately owned under mailo land tenure where houses are either constructed by landlords or by tenants who have occupancy rights using their own savings as opposed to getting housing mortgage from banks. This has over the years given birth to slums in areas like Kisenyi, Katwe, Kalerwe, among others in Kampala City. Today, over 60% of Kampala's population lives in slums⁵¹, housing mainly the urban poor in rental houses⁵².

The housing industry has, over the last 2 – 3 year period, started to attract more organized real estate developers both local and foreign. These include the Kensington Group from Dubai, UAE, Pearl Estates (a subsidiary of the Picfare Group of Companies in Uganda) and Nationwide Properties (a construction arm of Mukwano Group of Companies in Uganda) and others as shown in Table 7⁵³ below. These developers plan to construct over 2900 housing units by 2009. NHCC is also expected to build close to 2000 housing units by the end of 2009 in its newly acquired estates while NSSF plans on building 5,000 housing units using modern prefabricated building technology by 2011. However, the contribution of real estate developers to new housing stock is not expected to be significant. Their target segment is the middle and higher end⁵⁴ of the market.

⁵⁰ Source: Strategies for Facilitating the Financing of Affordable Housing in Uganda by the Private Sector; William Kalema; 2005

⁵¹ Situation Analysis of Informal Settlements in Kampala; Pg 10

⁵² Rental house(1-2 rooms with a pit latrine) in slums cost between US\$ 10,000 and US\$ 100,000

⁵³ Other developers like Jomayi Property Consultants and Hossana Real Estates sell well serviced plots of land in organized environments ranging between US\$ 5 million (US \$ 2,900) and 40 million (US \$ 23,000)

⁵⁴ The low-income end of the market is unattractive to these developers because of the high cost of land, basic infrastructure and the construction costs which result in house costs that are beyond affordable to the poor

sold. Plan another 1140 houses by 2009
 k) Mutundwe Housing Estate –400 houses
 by 2009
 l) Kyambogo Estate –9 houses by 2009
 m) Kireka Estate – Plan to build 300 houses
 by 2009

Source: Compiled by Consultant with information from Real Estate Developers

Housing supply initiatives in urban areas outside Kampala

Through Public Private Partnerships, government with support from donors and the private sector has undertaken the following four housing projects to meet the housing needs of the urban poor:

1. Under the DANIDA-Masese Women's Self Help Project, 400 houses have been constructed out of the planned 700 for residents in Jinja;
2. A total of 460 houses have been constructed, out of the planned 484, for residents in Mbale under the Malukhu slum-upgrading Project;
3. Under the Oli Housing Project of Arua, a total of 156 houses have been constructed;
4. The UN-Habitat-Mpumudde Housing project with support from Akright projects has constructed 20 houses for women in Mpumudde Division in Jinja Municipality.

Rural Areas

Scattered structures of low quality⁵⁵ make up the main form of housing in rural areas and they constitute the largest settlement (60.5%) arrangement in Uganda. Unlike the urban areas, supply of decent quality housing in rural areas has been extremely low and limited by the fact that the majority of the rural population lives in abject poverty. Supply initiatives undertaken have been through self-help projects funded by the government, Donors and NGOs in which low-cost houses have been constructed to ease on the housing needs for the rural poor.

Habitat for Humanity-Uganda (HFHU) is one of the NGOs that has been at the forefront of providing low-cost houses for the rural poor⁵⁶. Though few, HFHU has for the last 2 decades constructed 4,500 low-cost houses through its 43 grass root affiliates in 19 districts. As a consequence of lessons learnt from the different projects undertaken, HFHU has stopped constructing houses and has taken on a new product in which it is funding an MFI to issue housing micro-finance products.

Housing Demand

Inadequate financial resources for both real estate developers and end buyers have greatly constrained the housing demand side of the country. The lack of developer financing in the last 5 years has crippled the formal private sector to such an extent that its contribution to housing delivery has been relatively insignificant. Also, the high levels of poverty among Ugandans, which are an outcome of very low earnings, have slowed down the availability of housing in the country.

By 2005/6, the national housing requirements were estimated at 426,000 units with a housing deficit of about 560,000 units. 160,000 of this backlog were in urban areas with Kampala alone having a deficit of 100,000 units.

At the current population growth rate of 3.3% per annum and a population of about 31 million, it can be assumed that in 2020, the country's population would have risen to 43.3 million and it will have a housing requirement of 673,200 units. The housing shortage will be approximately 885,000 units of which 253,000 will be in Kampala. By 2040, Uganda will have a housing shortage of close to 8 million units of which 2.5 million will be in urban centers and 1 million in Kampala⁵⁷.

In conclusion, the demand for housing in Uganda exceeds the supply, creating great avenues for potential players to explore the housing industry. However, the part of this demand that is able to save substantial funds to afford current housing developments on the market is infinitesimal and it is entirely concentrated in urban areas.

⁵⁵ Houses are made of mud and wattle with grass thatched roofs which are constantly in need of repair

⁵⁶ Interview with Mr. Scott Metzger, Country Director, Habitat for Humanity-Uganda

⁵⁷ The New Vision: Housing, Construction Sector Boom by Ricks Kayizzi. 20 Years of Economic Recovery

Overview of the housing finance sector

The last three years have seen commercial banks tend to the country's increasing housing needs more responsively with a more flexible assortment of housing finance products. From only one bank in the 80s, to two banks in 2002, there are now five commercial banks and one MDI that have undertaken the provision of housing finance. A growing number of banking institutions have sought entry into this sector as it is still virgin with an untapped market.

Housing Loan Affordability

At the current commercial bank terms which require an individual to earn at least UShs 1 million per month, Table 8 below shows different gross monthly incomes that will suit maximum loan values payable in a period of 20 years at a maximum debt ratio of 35% and an interest rate of 16%.

Table 8: Housing Loan Affordability (UShs, millions)

Gross Monthly Income	0.8	1.2	1.6	2.82	4.97
Maximum Loan Value	20	30	40	71	125
Monthly Installments	0.278	0.417	0.556	988	1.74
Percent of the population with such affordability (25-30% i2i)	0.5%	0.4%		0.13%	0.03

Source: Compiled by Consultant

Conventional Housing Finance

Commercial Banks

Commercial banks finance mainly residential property and a few commercial property developments. Financed residential property developments which are offered by all the 5 commercial banks include: (i) house construction, (ii) house completion, (iii) home improvement, (iv) purchasing of houses, (v) equity release and (vi) refinancing mortgage. Granting of loans is negotiable depending on the credit rating of the mortgagee and the quality and value of the houses to be built or purchased. All loans offered have set repayment periods as is shown in Table 9.

Table 9: Loan Characteristics of Banks in the Mortgage Industry

Bank	Minimum Deposit	Loan Term (Years)	Interest per annum	Mortgage accounts held by Dec. 2007	Amount in mortgage loans (UShs)
HFB	20%	5 – 20	16 – 18%	3,000	130 billion
DFCU Bank	20%	5 – 20	16 – 18%	700	40 billion
Stanbic Bank	20%	5 – 20	16 – 18%	Just started	N/A
Barclays Bank	20%	5 – 20	16 – 18%	Just started	N/A
Standard Chartered Bank	20%	5 – 20	16 – 18%	Just started	N/A

Source: Compiled by Consultant from the five commercial banks offering mortgage services

Securing loan financing of residential property development is premised on the borrowers' income. For those employed in the formal sector (public or private), who wish to secure mortgage loans, employment should be on permanent terms for the period in which one will repay the loan. An individual is also expected to make monthly installations not exceeding 40% of confirmed monthly gross pay.

All institutions listed in Table 8 offer secured mortgage loans⁵⁸ for residential houses between UShs 10 million and UShs 200 million, though DFCU Bank can finance up to UShs 1 billion for home completion. Mortgages are given financing to cover 80% of the costs required to meet an individuals housing needs. DFCU and HFB also provide up to 80% of the costs for big developers in instances where the construction of houses is jointly financed by the real estate developer, the prospective buyer and the mortgage provider. This approach has encouraged developers to go for bigger and better planned projects and eventually better quality housing units⁵⁹.

⁵⁸ HFB issues unsecured mortgage loans to a few special individuals

⁵⁹ Interview with Mr. Leonard Mpuuma, a former Executive Director of NSSF

Walter Ogwal, Standard Chartered Bank.

"We entered the mortgage industry in May 2006. The main reason as to why we entered was to retain our customers who we had lost to other banks that were offering housing finance. On the whole, the industry is not that profitable and it involves a lot of risks. The supply of housing in the country is too thin for banks to engage suitably and the lack of long term funds may cripple the growth of this sector."

An example of such an approach was the approval of a US \$ 25 million project by all the five banks listed in Table 8 for the Dubai based Kensington Group to build 144 houses⁶⁰. The banks are offering up to 80% financing for a period between 15 to 20 years.

The East African Development Bank (EADB) has also undertaken the provision of structured loans though not directly on mortgages. They part financed the construction of up to 29 housing units constructed by HL Investments, a real estate developer.

HFB holds the largest market share (55%)⁶¹ of housing finance in the country. Its main source of funds has been through the sale of a pool of houses to civil servants that were owned by the state⁶². In 2004, 50% equity investment of HFB was acquired by NSSF. This has enabled NSSF use HFB as a driver for its lending into the housing industry.

DFCU is the second largest player in the housing finance sector. Its source of long-term funds has been through international credit institutions; Proparco (US \$ 7 million), Norfund (US \$ 3 million), IFC (US \$ 5 million) and the local pension's scheme, NSSF (US \$ 40 million). This was done through the Uganda Mortgage Finance Programme sponsored by IFC and also covering two other banks; Stanbic and Orient⁶³.

In an effort to serve middle and low income earners, HFB launched the *Growing House Product*⁶⁴ in August 2007. This initiative has allowed a substantial number of individuals in Kampala to build incrementally. HFB is also mobilizing funding from capital markets and other financial institutions to expand its loanable funds. DFCU Bank has also teamed up with Jomayi Property Consultants Ltd, a real estate developer, to fund the construction of low cost houses of about US\$ 33 million.

It should however be mentioned that commercial banks have in the past mainly concentrated on financing the demand (mortgage) side. This is so because mortgages provide more definite security, given that it is tied to the income of mortgagee as well as the physical asset itself. Also, the current systems in place do not allow for developers to prove the effectiveness of demand for their products, making it more difficult for them to receive financing⁶⁵.

The other major challenge with regard to financing housing in Uganda is the lack of long-term funding schemes within the domestic banking system and the nascent capital markets. Though government has channeled funds through NSSF to HFB and DFCU Bank to support the mortgage financing industry, the lack of long-term funds has stalled the provision of affordable mortgage finance and in turn limited the supply of housing.

Housing Micro-finance

Housing micro-finance is on the whole a new product in the country's housing finance sector. It employs a 2-way approach in which individuals can either access cash loans for home improvement or they can actually first get skills on how to build a house and through loaned construction materials, they build their own houses. Through MDIs, MFIs, SACCOs and other support programmes, housing micro-finance is expected to grow considerably due to a combination of significant donor funding and government support⁶⁶.

⁶⁰ The cost of these houses is too high and the developer is mainly targeting Ugandans in the Diaspora

⁶¹ Interview with Primadonna Kampire of Housing Finance Bank

⁶² Source: IFC Report on Housing Finance in Uganda by Tasc and Boleat, 2005. Pg: 74

⁶³ See the EastAfrican of February 11th – 17th, 2008. Pg 22.

⁶⁴ HFB's Growing House loan is given for a single stand alone house which is at either the ring-beam or the wall-plate level. It is a US\$ 30 million (US \$ 17,241.4) secured loan, payable in 10 years at an interest rate of 17%. Other terms for this loan include: (i) no minimum deposit is required, (ii) individuals should be permanently employed and they will be expected to make monthly installments not exceeding 35% of confirmed monthly gross salary, (iii) a land title, (iv) Bills of Quantities and (v) the house should be within Kampala.

⁶⁵ Banks in Uganda never used to lend against undeveloped land as collateral (which is the available security on the supply side). As a result, developers have used their own resources or costly commercial loans to finance the construction of housing units. On occasion, they seek and receive bank financing to complete their partially built units.

⁶⁶ Government has committed itself to support Savings and Credit Cooperative Societies (SACCOS) with the necessary infrastructure in

The Cash Loans Approach

Uganda Microfinance Limited (UML) is the only MDI in the country directly offering loans to the housing industry. They have been in the housing micro-finance sector for the last 5 years, issuing home improvement loans only until 2006 when they introduced the home building loans. All their loans are secured and they do not exceed US\$ 50 million (US \$ 29,000), payable within 2 years at an interest rate of 36% per month. As it was noted above, other MDIs and MFIs like FINCA Uganda, Pride Microfinance and Women's Finance Trust have been providing loans that have indirectly gone towards home improvement.

Other initiatives in the pipeline include the introduction of housing micro-finance products in MFIs by two NGOs as is shown below:

- **Stromme Foundation**, a wholesale lending institution is one of these NGOs. It plans to introduce a tripartite arrangement in which it will select one MFI from the 19 it finances to start issuing housing micro-finance products to its clients. The third party; NHCC will provide planned sites in which low cost houses will be built from the loans issued by the MFI. Loans will range between US\$ 6 and 8 million (US \$ 3,500 and 4,600), repayable within a period of 2 – 3 years. Stromme Foundation will also consider setting up a housing micro-insurance scheme to cater for the vulnerable. The project is expected to begin in 2 – 5 years.
- **Habitat for Humanity Uganda (HFHU)** is the other NGO and it directly issues home improvement loans to low income earners through two of its branches in Luweero and Masindi District. The loans are disbursed in cash at an average loan amount of US\$ 1.4 million (US \$ 805), payable within 2 years at an interest rate of 2% per month. HFHU is also financing UGAFODE – an MFI to issue home improvement loans to its clients. The UGAFODE – HFHU partnership started in late 2007, where it (HFHU) injected US\$ 330 million (US \$ 190,000) as a housing micro-finance fund to start the “UGAFODE home improvement loans product”. HFHU also offers technical assistance on how to effectively manage this product. Before embarking on the above housing micro-finance initiatives, HFHU used to employ a product-led approach in which it would design and construct low cost houses for the poor at about US\$ 2.5 million (US \$ 1437). Using the commodity index system⁶⁷, the poor would gradually pay for these houses within a 10 year period in a revolving fund. Unfortunately, repayments made were inconsistent and poor. As a result, HFHU adopted strict rules of repossessing building materials which improved on repayments, though not satisfactorily. This factor and the imperative need for more creative innovations in providing housing to the poor created a strong impetus for HFHU to move from a housing provider to a housing micro-finance supporter.

Community Self-Help Projects

Four self-help projects have been undertaken in Uganda to provide low-cost housing for the poor. They have all had a Public-Private approach and donor support as is shown in section 4.1. In Box 2 below, we give an overview of the Masese Project, from which other projects were guided and informed on proper implementation.

Non Conventional Housing Finance

Through rotating credit societies, saving clubs and SACCOs which are under government's programme of “Prosperity for All”, the poor (who are unable to access the above means of housing finance) have been enabled to finance small scale businesses and in some cases they have enabled the construction of houses.

In Uganda, SACCOs have a relatively wide institutional outreach into the rural areas. They have great potential as rural financial intermediaries though most of them have weak financial positions and their inability to operate strictly on commercial principles further minimizes their chances of becoming sustainable. Since many poor individuals can not provide conventional collateral to ensure compliance with loan repayment responsibilities, SACCOs issue loans on a revolving fund mechanism in which they do group lending where the borrower is not only responsible for the repayment of his loan, but also for the outstanding loans of other group members.

order to reduce their cost of establishment so that they can lend at lower interest rates since they now have lower overhead costs

⁶⁷ The commodity index is the cost of the house plus a 10% administrative cost divided by the current cost of a bag of cement

The Masese Self Help Project

The Masese Project was set up to build 700 households to improve on the housing conditions of the people in Jinja, Masese. Its main actors included:

- Jinja Municipal Council which provided the land;
- the Ministry of Works, Housing and Communication that provided government support ; and
- DANIDA which funded the purchasing of construction materials, the training of beneficiaries and the formation an Association of beneficiaries.

The project first trained beneficiaries on how to profitably engage in income generating activities in addition to equipping them with skills in construction and infrastructure development and maintenance. Plots of land were then transferred to each beneficiary for which they made an agreement with the Association on how they will pay back a loan for the construction materials they were to use to construct a housing unit.

The project was premised on beneficiaries refunding construction materials to create a rotating fund that would be used to create similar projects elsewhere. The rotating loans ranged between UShs 1.7 million and UShs 5.3 million depending on the size of the housing unit and they bore an interest rate of 4% per annum, repayable in 10 years. 400 houses have so far been built.

The Masese Project however faced some challenges:

- A good number of beneficiaries were unable to repay back the loans as they had no sustaining incomes despite acquiring the loans
- A good number of beneficiaries did not see the value of the project; home acquisition. As a result they sold off their plots and they have instead set up a slum nearby.

Lessons learnt from this project have been used to address proper implementation of the Maluku project in Mbale. Also, the Mpumudde Housing Development Programme is based on a similar approach and allows maximum funding of up to US\$2,200 per household, approximately US\$1,900 of which provides materials and labor for a house. The remainder is used as a loan for income generation

Future challenges and interventions

As outlined above, several milestones have been met in building the country's housing industry and housing finance sector, and in some instances they have been surpassed. Nevertheless, attention is needed in several areas that are critical in meeting the increasing housing needs of all income groups. It is critical that the activities of both government and the private sector are handled more precisely and stringently to enable low income earners access affordable housing facilities in an adequately financed housing industry. This implies prioritizing housing issues in the overall planning, implementation and monitoring programs of the country.

Below we extrapolate key issues that are still challenging the housing finance sector and propose possible interventions that can be taken to address them in the short and long term.

Housing Micro-finance

A good a number of Ugandans, especially middle and low income earners employ the incremental building system – gradual home improvements as opposed to outright home purchase or construction. Small scale lenders like MFIs and SACCOs who target the above income groups have however not explored the housing micro-finance industry considerably. Although a good number of the loans they issue unconsciously go towards home improvement, housing micro-finance products like the incremental building loans and others that specifically address the housing needs of the poor are lacking.

Short-term Interventions

1. Given the fact that MFIs and SACCOs have got a small deposit base and a small loan portfolio, they are well positioned to lend for such products (incremental building, etc) and avenues should be explored on how they can be encouraged to do so. This is premised on the fact that (i) low income earners prefer to remain in their current houses and progressively build on them than build/buy a house, (ii) low income earners are not familiar with committing to long term loans for home purchase or construction and (iii) low income earners' repayment capacities are very low. In addition, since most low income earners use their houses for business and dwelling, this approach will allow for incremental improvements on their houses without losing income from their businesses.

2. Small scale lenders (MFIs and SACCOs) should be promoted throughout the country in addition to encouraging and facilitating them carry out programs that increase financial literacy among the population.
3. Low-income groups' capacities should be built to allow them engage in housing saving schemes. This can be done using three approaches as is described below:
 - Non Government Organizations (NGOs), Civil Society Organizations (CSOs) and other donor funded organizations should encourage and strengthen the capacity of low-income groups like Rotating Savings and Credit Associations (RSCAs) to engage in housing saving schemes that will later facilitate group housing developments.
 - Technical assistance should then be provided on how to register these groups legally, how to deal with problems associated with increasing urbanization, how to save regularly and efficiently, the repayment of loans, how to create income generating activities and how to identify other funding sources.
 - Once these groups are legally registered, a bridge can then be built between them and MFIs. The MFIs can later team up with commercial banks to boost their lending capacities.

Mortgage Finance

Lack of well established long-term domestic lending schemes to finance housing has greatly slowed the growth of Uganda's housing sector. The country's main traditional sources⁶⁸ of this finance are all in their initial stages of growth, and they have not yet amassed substantial capital to transform the housing finance sector. This has reduced the availability of fairly priced, long term housing and mortgage finance. Also, owing to the high risk linked with long-term (over 5 years) lending, most terms in the mortgage loan agreements contain a special clause in which the loan provider reserves the right to alter (usually upward) the borrowing interest rate. This has resulted in defaults and at times the loan is recalled and the house (security) forcefully sold off.

Short-term Interventions

1. Bank of Uganda and the Ministry of Finance Planning and Economic Development should develop mechanisms that will encourage more commercial banks and other formal financial institutions to start long-term lending. This will increase competition in the sector, in turn more mortgage related products will be floated on the market and a substantial part of the population will be served.
2. Capital Markets: Through the issuance of bonds, private capital can be mobilized for long-term lending. Local companies/institutions have however been reluctant to participate in the capital markets industry as is evidenced by their few listings and the small market capitalization of the Capital Markets Authority (CMA). The CMA has however commissioned a study to establish how it can attract private companies to participate in the capital markets industry. It is hoped that this study will come up with methods that will see more local companies on the Uganda's Securities Exchange.
3. The Ministry of Finance Planning and Economic Development with support from development partners should put in place mechanisms that will standardize the procedures, practices and documentation of mortgage lending operations. This will ensure that more individuals have access to finance and that they are fairly treated. Systems that assist in the upgrading of skills of mortgage finance providers especially in risk assessment and standardization of documentation of efficient recovery and procedure should also be put in place.

Long-term Interventions

4. Bank of Uganda and the five commercial banks that are offering mortgage related products are considering setting up a Mortgage Liquidity Facility (MLF) that will act as an intermediary between the commercial banks and the bond market to provide long-term funds at better rates, better terms and conditions than when they are operating alone.
5. Like in Malaysia⁶⁹, the Retirements Benefits Legislation should be adjusted to permit the use of a portion of an individual's saving to facilitate home ownership.

⁶⁸ Examples include the pension and security funds and insurance companies

⁶⁹ In Malaysia, members of the Employees Provident Fund can access up to 40% of their savings to purchase a house or meet health expenses.

Construction Finance

Construction finance from financial institutions to small scale manufacturers of various building materials is very unlikely in Uganda and it has only been accessed by big manufacturers such as Uganda Clays, Tororo Cement, Roofings Ltd, etc. This is based on the fact that these small scale manufacturers are not organized (they lack modern business management skills) and their operations are very small to meet the stringent borrowing terms (for example the need for collateral, etc) set by financial institutions.

As a result, they are unable to benefit from economies of scale, they incur high operational costs, they often produce sub-standard products and they operate on very low margins. Eventually, the costs of building materials are high and of low quality, which in turn affects the overall prices and quality of houses built.

Short-term Intervention

1. Small scale manufacturers of building materials should be encouraged to join associations like the Uganda Small Scale Industries Association from which they can solicit manufacturing incentives, especially credit. Enterprise Uganda is another institution that would greatly boost operations of small scale manufacturers through training on how to keep and prepare annual books of accounts and on how to operate their businesses efficient using economies of scale.

Housing Support Services

The greater part of Uganda's population (70%) consists of low income earners who are unable to accumulate enough savings to access decent housing. For those in the formal sector, more than 50% earn less than US\$1 million which would allow them greater chances of qualifying for a home loan under the current bank conditions.

Short-term Interventions

1. Like it was done in Ghana⁷⁰, the Ministry of Lands, Housing and Urban Development with the support of development partners like Habitat for Humanity and UN-Habitat should acquire substantial pieces of land that will be used for low income housing development projects like the Masese Project. Government could also set up similar projects like the Tanzania Women Land Access Trust (TAWLAT⁷¹) in Tanzania in which low income earners acquired land and accessed credit for home ownership;
2. For the urban poor, the Ministry of Housing can team up with international groups like Rooftops, Canada to facilitate and support the establishment of housing cooperatives in which individuals would obtain houses under conditions that suit their incomes;

Land Issues

The Land Tenure System and the growth of Slums

Uganda's land tenure system, especially in urban areas has had a negative impact on physical planning and infrastructure development. The country has got four tenure systems of mailo, customary, freehold and leasehold. All these tenures are however practiced differently under a free land market system, with a number of informal occupancy mechanisms⁷². Consequently, urban councils, particularly Kampala City Council are faced with great challenges when creating orderly development, which sometimes requires resources to compensate land owners.

⁷⁰ In Ghana, organized housing developments were a springboard for private developers to cater for all income levels in gated communities. Such developments invigorated the mortgage finance industry and helped to stabilize housing prices. The government acquired 50,000 acres of land for housing development

⁷¹ With support from UN-Habitat, credit facilities were extended to TAWLAT to assist low income earners own homes

⁷² Situation Analysis of informal settlements in Kampala

Short-term Interventions

1. The land tenure regulation should be revised to allow for the proper upgrading of slums in urban areas. Specifically, the regulation should emphasize the application of tenures in ways that will permit the central government and urban councils to plan, control and enforce orderly urban development.
2. Government should create incentives to attract private sector investment capital and technical resources for settlement planning, development and management. These will facilitate economies in provision of primary infrastructure which could later be commercialized.
3. There is need for institutional restructuring to bring together departments responsible for planning, housing and urban development and merge them with the Ministry of Local Government in order to ensure effective technical supervision since the functions of planning and urban development take place at local government level⁷³.

The Land Act

Section 30(2) of the Land Act that recognizes Bona Fide occupants of land has not adequately facilitated smooth land transactions. Though it stipulates negotiation and arbitration, in some cases, occupants have come up with unreasonable terms leading to prolonged negotiations with buyers. These long-term occupants of potential developments sites have often appealed to political authorities to support their cases consequently delaying development of such areas.

Short-term Interventions

1. The Ministry of Lands, Housing and Urban Development should review section 30 (2) of the 1998 Land Act to speed up land transactions;
2. In addition to computerizing records of the Land Registry, staff members need to be trained in customer service skills.

Other Issues

The country lacks an adequate information database to facilitate investments and transactions in housing. Additionally, marketing of housing in Uganda is still poor, with few channels for dissemination of market information.

Short-term Intervention

1. Government should promote the development of a national housing information system for houses under development and sale.

⁷³ State of Uganda Population Report, 2007: Planned Urbanization for Uganda's Growing Population by United Nations Population Fund (UNFPA), Uganda

Recommendations for Engagement by Donors and Development Agents

Basing on the challenges faced by the housing industry and the housing finance sector, we have identified the following areas that FinMark Trust and development agents to engage in. These include:

- Funding a comprehensive study on how housing finance can be adequately channelled to low income earners;
- Advise and partner with government on how to build a national housing information system for houses under development and sale;
- Guide and build technical capacity of NGOs and other donor funded organizations to start initiatives like those undertaken by Habitat for Humanity Uganda and Stromme Foundation in which they are to fund MFIs to start issuing housing micro-finance products like the home improvements loans;
- Supporting MFIs and SACCOs by building their capacity through training in the areas of book keeping, financial management, business management and facilitating them carry out programs that will increase financial literacy among the population;
- Support small scale constructors and small scale manufacturers of building materials through technical assistance on how to institute principles of best practices in the management of their businesses and when constructing houses. This will gradually improve on Uganda's primary mortgage market and the development of a secondary mortgage market;
- Setting up a demonstration Housing Fund from which individuals (low and middle income earners) can borrow at low interest rates to meet their housing needs. This will then guide donors and the private sector on setting up a bigger fund that will serve the whole country.

Annexes

Persons interviewed

Name of Interviewee	Institution	Tel. Contact	Email Address
Moses Kibirige	DFCU Bank	0772 890 036	mkibirige@dfcugroup.com
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Primadonna Kampiire	Housing Finance Bank	0312 262 614	sprima@housingfinance.co.ug
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Priscilla Serukka,	Stromme Micro Finance	0772 701 823	Priscilla.serukka@stromme.org
Scott Metzel,	Habitat for Humanity Uganda	0782 145 367	Scott_metzel@yahoo.com
Michael Oballim,	National Housing and Construction Company	0772 416 082	moballim@nhcc.co.ug
Leonard Mpuuma	Housing Finance Specialist	0752 860 357	
Yudaya Nabukeera	Pearl Estates	0752 921 604	yudaya@pearlestates.ug
Khayangayanga Dave	Ministry of Housing	0772 489 262	
Biswanath	Nationwide Properties	0755 555 000	
Kensington Properties		0754 333 105	
Akright Properties		0414 256 731	info@akright.biz

Organisations visited

Name of Organization	Contact Address	Activity
Stromme Foundation	Plot 25, Block LRV235, Folio 3 Bukoto Street, P.O.Box 27200, Kampala, Uganda. Tel: +256 414 532 840 Web link: www.stromme.org	Stromme Foundation (SF) is an international Norwegian Development Support Organization which provides humanitarian development assistance to needy communities of people in the third world countries for greater equality and quality of life with dignity. Main areas of concentration are in the fields of Micro finance (mainly targeting women) and Primary Education (targeting children at risk). It has over 45 partners (local NGOs and Micro Finance institutions) in Uganda, Kenya, Tanzania, Sudan and Rwanda who are given not only financial but also technical support to reach out to the needy people
Habitat for Humanity Uganda	Plot 7206, Bukasa Close (off Muyenga-Takhill Road), P.O.Box 9873, Kampala, Uganda Tel. +256 414 501 457 Web link: www.habitat.org	Habitat for Humanity is a worldwide non-profit housing organization that works in partnership with people in need of decent housing to build and renovate simple, affordable homes. Habitat for Humanity Uganda (HFHU) was founded in 1982 in Gulu, in the North. HFHU is currently, actively operating in 7 districts, through affiliates in eastern, western and central Uganda

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