Uganda

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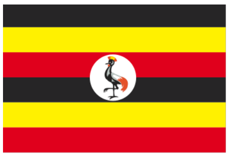


KEY FIGURES

Main urban centres	Entebbe, Kampala
Exchange rate (1 July 2021): 1 USD = [a] 1 PPP$ = (2020) [b]	3 560.11 Ugandan Shilling (USh) 1 157.27 Ugandan Shilling (USh)
Total population (2020) [b] | Urban population (2020) [b] Population growth rate (2020) [b] | Urbanisation rate (2020) [b] GDP per capita (Current US$) (2020) [b] Percentage of population below national poverty line (2017) [b] Unemployment rate (% of total labour force, national estimate) (2017) [b] Proportion of adult population that borrowed formally (2017) [b] Gini coefficient (2017) [b] HDI country ranking (2019) [c] | HDI country score (2019) [c]	45 741 000 | 11 414 209 3.27% | 5.67% US$817 15.2% 2.1% 13.7% 42.80 159 | 0.53
GDP (Current US$) (2020) [b] GDP growth rate (2020) [b] Inflation rate (2020) [b] Lending interest rate (2020) [b]	US$37 372 million 2.86% 3.79% 19.90%
Number of residential mortgages outstanding Value of residential mortgages outstanding (USD) [e] Prevailing residential mortgage rate | Term [e] Maximum LTV on a residential mortgage Ratio of mortgages to GDP Number of residential mortgage providers [e] Number of microfinance loans outstanding [e] Value of microfinance loans (USD) [e] Number of microfinance providers (2020) [e]	n/a US$218.6 million 17-21% | 25 years 85% 0.58% 6 n/a US$2.72 million 4
Total number of residential properties with a title deed [d] Number of formal dwellings completed annually Price of the cheapest, newly built house by a formal developer or contractor in an urban area in local currency units (2019) [d] Size of cheapest, newly built house by a formal developer or contractor in an urban area (2019) [d] Typical rental for the cheapest, newly built house (2019) [d] Cost of standard 50kg bag of cement in local currency units [f] Type of deeds registry: digital, scanned or paper (2020) [g] World Bank Ease of Doing Business index rank (2020) [g] Number of procedures to register property (2020) [g] Time to register property (2020) [g] Cost to register property as share of property price (2020) [g] World Bank DBI Quality of Land Administration index score (0-30) (2020) [g]	n/a n/a 58 000 000 USh 85m^2 500 000 USh 28 000 USh (US$7.86) Computer - Scanner 116 10 42 days 3.90% 10.5
Percentage of women who own a house alone and/or jointly (2016) [h] Percentage of female-headed households (2019) [h] Percentage of urban population living in slums (2018) [i] Percentage of households with basic sanitation services (2019) [h] Percentage of households with electricity (2019) [h]	37.8% 28.3% 48.3% 26.1% 41.3%
Cumulative number of COVID deaths per 100 000 as of 1 Oct [k] Percent of population fully vaccinated against COVID-19 as of 1 Oct [l]	6.91 0.93%

NB: Figures are for 2021 unless stated otherwise.

[a] Xe.com
[b] World Bank World Development Indicators
[c] Human Development Reports, United Nations Development Programme
[d] REALL & CAHF
[e] Bank of Uganda Statistics
[f] Cheap Hardware Ltd
[g] World Bank Ease of Doing Business Indicators
[h] Demographic and Health Surveys, USAID
[i] United Nations Human Settlements Programme (UN-HABITAT)
[k] World Health Organization (WHO)
[l] Johns Hopkins University Coronavirus Resource Center

Overview

Uganda's population growth rate, at 3.3%, is one of the highest in Africa. At 5.67%, Uganda's urbanisation rate is also high. The high population growth and urbanisation rate have resulted in a growing number of informal settlements, now making up 48.3%[1] of the country's urban population. Approximately 94.5% of the population living in slums and informal settlements do not have access to basic sanitation services, creating additional strain on the economy that is struggling to regain its full growth potential. Uganda's economy expanded by 3.3% over the financial year to June 2021, up from 3.0% registered over the 2019/2020 financial year.[2] This pattern of recovery has been achieved partly as a result of expansions in household sector demand, supported by a strategy of monetary easing pursued by the monetary authorities after the earlier slump in growth attributed to COVID-19 and the impact of its containment measures on the economy. Notably, the housing sector continues to operate, unabated by the lockdown.

The modest 3.3% growth in real gross domestic product (GDP) was supported by government absorption and household consumption financed by a drawdown on savings. The savings rate dropped from 18.1% in the 2019/20 financial year to 16.3% in the 2020/21 financial year. The main impediments to economic growth were weak demand for exports, a decline in tourism, and reduced private investment caused by the depressed economic environment attributed to the effects of COVID-19 in the country and region.

Similarly, restrictions in the business environment translated into a reduction of growth in private sector credit to 6.8% for the financial year 2020/2021 from a year-on-year average growth of 12% for the previous three years to June 2020. This slow expansion in borrowing or lending is expected to continue over the next financial year to June 2022 on account of the low levels of economic activity after a second lockdown of the economy over the period 18 June to 29 July 2021.

The nation's USh44.7 trillion (US$12.56 billion) budget for the year 2021/2022 has a clear focus on enhancing resilience and economic recovery following the effects of the pandemic on most sectors of the economy. Resuscitation of small and medium enterprises (SMEs) through credit provision is high on the country's agenda with the nation's development finance institution, the Uganda Development Bank, earmarked to receive USh1 trillion (US$280.89 billion) as capitalisation to support production, processing, and manufacturing of essential items for the country. This is also aimed at boosting the country's resilience amid the supply chain disruptions and the need to become self-sufficient in the production of goods commonly used in the domestic market. To actualise this plan, the government released USh455.18 billion (US$127.86 million) in July 2020 to the Uganda Development Bank to support target sectors including agriculture and manufacturing. This funding, alongside other programmes targeting recovery of the micro and SME sector, have suffered low repayment rates on account of the borrowers' common perception that the loans are government hand-outs that do not carry strict requirements to be repaid.

Overall, the national budget highlights a reduction in the resource envelope as recognition of the reduction in external project funding support for the developing country. This indicates renewed focus on internal revenue mobilisation through taxation and domestic borrowing. The FY2020/2021 drop in economic activity on account of the pandemic and its containment measures have in part translated into a higher level of national debt as the government seeks to cover the shortfall in tax revenue through increased borrowing. Government measures to support the economy during the pandemic have translated into a wider fiscal deficit of 7.2% of GDP in 2020,[3] higher financing costs, and have increased the total debt-to-GDP ratio from 38.9% to 52.6% over the year ended December 2020. Provisional data from the Ministry of Finance, Planning and Economic Development indicates that total public debt stock as at end April 2021 stood at USh66 103.2 billion (US$18.57 billion), an increase of 15.1% from the June 2020 position. The increase in the stock of total public debt as of April 2021 was mainly due to a 33.6% growth in domestic debt, attributed mainly to an increase in domestic financing. This growth is significantly higher than the growth in external debt, which registered a 13.0% expansion, mainly on account of budgetary support from multilateral and bilateral creditors.

To improve revenue collection efforts, the Uganda Revenue Authority has emphasised electronic means of invoicing and tax collection including the new Electronic Fiscal Receipting and Invoicing System and digital tax stamps. In addition, several tax amendments have been introduced aimed at boosting domestic revenue. These include changes to the rental tax regime for individuals, which are to be coupled with the expected rollout of the Rental Tax Compliance System in the 2021/2022 financial year. These changes are likely to affect the affordability of housing as developers of rental housing units gross up the amount of rent to include the tax margin required by the tax authorities. Additional tax changes include the introduction of a mandatory Tax Identification Number at the licensing stage for current and prospective business operators, aimed at ensuring that all businesses are adequately monitored for tax compliance. Internet users will also have to contend with a 12% excise duty on Internet data.

On the market side, Uganda's general price levels have remained relatively low and stable with headline and core inflation rates subdued at an average of 2.4% and 3.4% respectively[4] over the one-year period to July 2021, and well-aligned within the 5% inflation rate target pursued by the monetary authorities in the East African regional economies. The low inflation rate has mainly been due to lower food and utilities' prices coupled with low household demand for the bulk of goods and services. Bank of Uganda's projections indicate that this trend will change, with inflation forecasts pointing to a gradual rise throughout the year on account of the pandemic containment measures, but remaining within the 5% target range in the medium term.

On the property market side, the marginal increment in general prices translated into a relatively higher rise in property prices, with implications for housing affordability. The Residential Property Price Index (RPPI) for the Greater Kampala Metropolitan Area rose 5.6%[5] in the 2020/21 financial year compared to the previous financial year. The increase is largely attributed to increments in property prices across most of Uganda's central region, mainly because of a high urbanisation rate of 5.2%.[6] The rise in the RPPI negatively affects housing affordability even in the restricted economic environment, as housing remained a crucial need for the urban working population when the general population was confined in their homes during the COVID-19 lockdown periods. Home ownership has worked positively in boosting resilience to the effects of the pandemic as homeowners are spared the rent burden even through periods of restricted economic activity and low income. The property also works as collateral for the owner to access credit.

Access to finance

The country's financial sector has demonstrated high levels of resilience amid slumps in credit expansion and worrying levels of non-performing loans. The growth in private sector credit declined over the year 2020 and the first half of 2021 on account of depressed consumer demand. For the existing stock of loans, the harsh economic environment drove some business entities towards near collapse, unable to service their financial obligations with lending institutions.

More than 30% of Uganda's banking sector players reported a drop in profit for the year 2020 because of increasing portfolio delinquency, which rose from 4.9% in December 2019 to 5.3% in December 2020.[7] In response to the deterioration in portfolio quality and its potential impact on the stability of the country's financial sector, Bank of Uganda devised key interventions aimed at alleviating the situation. A number of credit relief programmes for both financial institutions and borrowers were put in place.

Urban informality

The rapid rate of urbanisation, estimated at 5.67% in Uganda, has led to the growth of informal settlements across all districts of the country. These offer accommodation to casual laborers and petty traders operating in the respective districts. Whereas the government ministry in charge of Lands, Housing and Urban Development has laid out a number of plans for slum upgrades, none of these plans has been implemented. Lack of adequate funding and complexities in the land tenure system remain the biggest challenges in addressing the slum problem. Countrywide, 48.3% of the population resides in slums and other informal settlements. The country's population growth rate remains high at 3.3%, increasing pressure on urban sanitation services.

For the financial institutions, the Bank of Uganda established measures aimed at strengthening the banks' ability to absorb shocks. Banks were given permission to grant credit relief to borrowers affected by the pandemic and also permission to access the COVID-19 Liquidity Assistance Program (CLAP), established for banks under liquidity distress. The CLAP was subsequently expanded to include support to lower-tier credit institutions and Microfinance Deposit-Taking Institutions which normally do not have access to central bank liquidity facilities. To limit the impact of the pandemic on the financial system, the central bank also established stringent limits on the loan-to-value (LTV) ratio for residential mortgages and land purchase, and instructed the deferral of payment of dividends to shareholders of financial institutions. In April 2021, the central bank established an additional support mechanism in the form of the Emergency Liquidity Assistance facility. This was aimed at supporting viable banking institutions that may face liquidity stress under the Lender of Last Resort function. During the quarter to March 2021, a total of Ush551.82 trillion (USh155 billion) was borrowed by three banks to address short-term liquidity needs and subsequently were repaid on time.

The 85% limit on the LTV for new residential mortgage loans and loans for land purchase, established with effect from 1 June 1 to alleviate the risk of bank losses from reduced property prices during the pandemic, has in effect worked to restrict the amount available to an individual seeking finance to buy or build a residential property or buy land.

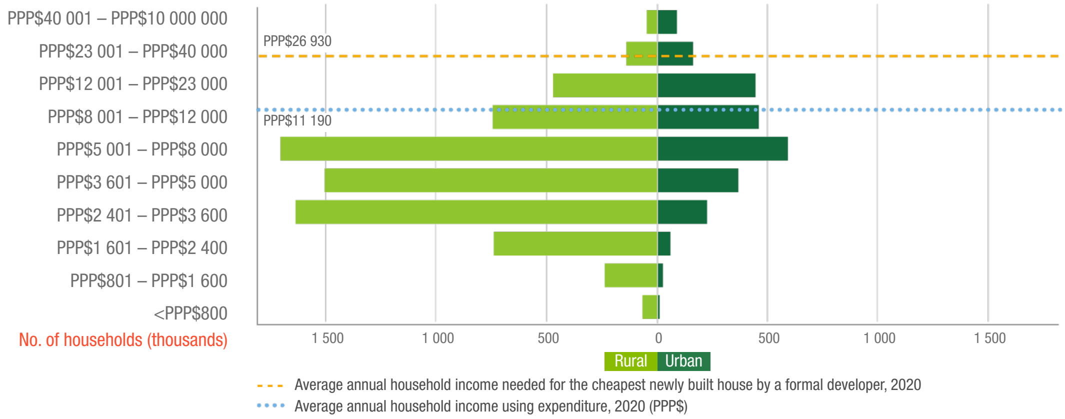
For borrowers, the central bank provided flexible credit relief measures to banks for the management of distressed borrowing clients through restructuring and capitalisation of interest due. The necessity of the relief measures was amplified by Bank of Uganda's assessment that almost a third of gross loans in the banking industry were under payment deferrals in December 2020, while the level of past due restructured loans remained significant.

Also worrying was that banks' loan books are likely to deteriorate significantly, with rising losses as the payment deferrals come to an end. The moratorium put in place by the central bank is scheduled to expire on 30 September 2021. Granting any credit relief is entirely at the discretion of the lender, and extensions are allowed only if the lender believes that the borrower will be able to repay by the end of the relief period. In addition, financial institutions were directed to implement International Finance Reporting Standards guidelines by recognising bad loans promptly, particularly those whose financially distressed condition is likely to be permanent. To promote the credit relief programme, Bank of Uganda conducted a countrywide print media and radio publicity campaign to ensure that eligible borrowers who were financially distressed were informed of the extension of the programme and used it.

For prospective homeowners with limited access to the main mortgage facilities of banking institutions because of insufficient collateral and irregular income sources, microfinance institutions and Savings and Credit Co-Operative Societies (SACCOs) continue to be instrumental in improving access to credit. Leading SACCOs in the

UGANDA

Annual income profile for rural and urban households based on consumption (PPP$)



Population:	45 741 000
Urbanisation rate:	5.67%
Cost of cheapest newly built house:	58 000 000 UGX
House price PPP$:	PPP$43 895
Urban households that could afford this house with finance:	10.26%
1 PPP$:	1 321.35 Ugandan shilling

Source: https://www.cgidd.com/C-GIDD, 2020

country, including Y-Save and others, been active in purchasing chunks of land for parceling out to members at affordable rates thanks to the benefits of bulk purchases. These members then access microcredit for incremental loans that enable them to construct homes over an average period of four years.

Affordability

The strain in the economic and business environment over the years 2020 and 2021 has had a negative impact on housing affordability for the majority of households in the country, with 48.3% of Uganda's urban population living in slums and informal settlements,[8] affordability for decent housing continues to hamper development in the sector. The price of a newly constructed housing unit by a formal developer in 2020 was recorded at USh48 million (US$13 482.73), which remains out of reach for a country with a GDP per capita[9] of US$643.02. High mortgage lending rates continue to constrain access to affordable housing finance with the leading mortgage lender[10] quoting interest rates in the region of 17% for residential housing loans. Even with the entrance of a 26th financial institution in Uganda's banking space, interest rates have remained high, averaging 19.2%. The central bank's reduction of the central bank rate from an average of 8% in 2020 to a record low of 6.5% in June 2021 has not yet been reflected in a reduction of commercial bank lending rates across the industry. On the microfinance side, incremental housing loans are available at interest rates varying from 22% to 26% over four years.

Housing supply

Uganda's requirements for decent housing continue to grow at an estimated rate of 200 000 units a year, unmatched by supply. Uganda has a deficit of 2.4 million housing units[11] with the bulk of these in the affordable housing segment. The growing need for housing is mainly attributed to the rapid rate of urbanisation and population growth. Beside the internal drivers of housing demand, Uganda boasts a long history of hosting refugees from the region, including South Sudan, Somalia, Eritrea, Democratic Republic of Congo and Rwanda.[12] The country currently hosts approximately 1.5 million refugees. Another 2 000 Afghan refugees[13] are scheduled to find accommodation in the country, which has already received the first flight with 51 evacuees following the Taliban takeover of Afghanistan in August 2021. Although the resettlement plans have not yet been made public, the probable option of establishing new refugee centers in urban areas will push the existing urban housing challenge to unprecedented levels.

The supply side of housing units has been dominated by private developers including National Housing and Construction Corporation, Universal Homes, Comfort Homes, Meera Investments and Guoji Group generating an average of approximately 800 units a year. However, houses delivered by these developers are mainly focusing on the middle to high income earners who can access mortgages in the region of USh213.60 million (US$60 000) and above. The low income segment is mostly dominated by individual homeowners building incrementally through own savings and small loans from microfinance institutions. Government initiatives to develop residential estates for target groups, including medical workers, teachers and police officers, have stalled for decades because of unavailability of funding.

Overall, the housing supply side will need a multipronged approach involving participants in the private and public sectors to realise progress towards closing the housing deficit in the medium and long term.

Property markets

Uganda's real estate sector has been one of the most affected sectors during the pandemic. While the sector was recognised as crucial to address the growing housing needs of the population, the impact was still profound. During the lockdown period, the government permitted construction sites for real estate, industrial and infrastructural developments to continue on condition that construction workers were confined to their respective sites. This supported construction works for mid-sized and large-scale property developers with the capacity to transport workers and host them at construction sites for the entire period of the project. Informal and small-scale developers, who mainly rely on casual labour, were hard hit by the travel restrictions across the country. This impacted the speed of delivery of informal housing developments undertaken by individuals.

On the demand side, the pandemic containment measures that emphasised lockdown of economic sectors and travel restrictions resulted in depressed demand for residential apartments. This was the result of subdued demand by households, as the bulk of their income-generating activities were closed. Informal sector workers reacted by massively moving to their families to rural areas where the cost of living is low and rental charges usually non-existent thanks to an elaborate family support system. This translated into a temporary excess supply of housing units in the urban areas as landlords struggled to find credible tenants among the few remaining urban workers. The strain on economic activity also translated into reduced incomes for many tenants who subsequently fell behind with their rental payments. In an attempt to alleviate the problem, the government appealed to landlords to avoid tenant evictions during the lockdown period. This directive on evictions was significant for land transactions involving landowners and unauthorised settlers, and occasioned by rampant unlawful evictions being implemented under the cover of the lockdown.

The effects of the pandemic are still prevalent on the property market with a number of incomplete homes being presented to the market for sale. These are mainly sold by owners whose source of income has been negatively impacted by the pandemic and are therefore unable to complete building. Other properties flooding the market are completed homes whose owners have had to put them up for sale to settle various obligations, ranging from mortgages and raising capital to restart business operations after the devastation of their income-generating activities during the pandemic. A number of financial institutions have also been observed to foreclose on commercial properties for proprietors whose rental income earnings were negatively impacted by the pandemic on account of fatalities and lockdown.

Despite the growing number of houses being offered for sale, the pace of title transfers at Uganda's land registry remains a concern. The digitisation of the registry has taken longer than anticipated as the implementation took more than

10 years to be actualised. The digital land registry system that had been in the pipeline since 2010 and was launched only in February 2020 as a partnership between Uganda's Ministry of Lands, Housing and Urban Development and the French company IGN FI with loan funding by the World Bank. The new system has enabled the production of new land titles marked with bar codes that make it more difficult to forge signatures. The title transfer cycle has also been improved from an average of 52 days to approximately 10 days. However, the COVID-19 containment measures also affected the land registry with a number of zonal offices closed to prevent further spread. Travel restrictions also meant that there were fewer new applications for land titling and transfers. In addition, the cost of land surveys and land title production has almost doubled as professionals in this field cite delays and complexities in completing the titling process.

Policy and legislation

The land tenure system in central and parts of western Uganda the Mailo system allows various kinds of interest by different parties to the same piece of land. The Mailo system is a unique form of land tenure that is similar to freehold. The system allows landlords to permit tenants to use land for an undefined period. The system was introduced in a 1900 agreement between the Buganda Kingdom and the colonial administration when land ownership was given to a few chiefs, leaving others as tenants.

The absence of clear terms of land use has resulted into a number of land wrangles, court cases, forceful evictions and loss of life, which have all constrained housing sector developments. To assuage the situation, the government, in July 2021, started the process of drafting a Bill that will see reforms in the Mailo Land Tenure System, with the objective of finding a lasting solution for evictions and wrangles. The amendment will seek to ensure that Mailo landlords don't evict tenants or those who have no occupancy documents. The registered landowner normally carries a certificate of title while the tenant by occupancy may have interest in the same piece of land by way of a land purchase agreement or inheritance rights. For most lending financial institutions in Uganda, the absence of a land title constrains access to credit and therefore housing-related developments on the respective piece of land.

Opportunities

The need for affordable housing continues to rise, characterised by a rapidly growing urban population. The emergence of COVID-19 has affected the supply side of new housing units and also led to the unanticipated influx of new houses on the secondary market as a significant portion of homeowners are unable to repay their mortgages or even meet the high cost of living in urban areas after the loss of income due to the restriction of economic activity across a number of sectors. Unfortunately, the secondary housing market is mainly informal, unregulated and underdeveloped with heavy reliance on social media platforms to identify potential buyers and sellers.

The government's plan to create 15 new cities over a period of four years provides an opportunity for budding developers of affordable housing for the new cities. This will also need support of financial institutions with tailored solutions, including flexible repayment options and the use of alternative collateral to support housing sector developments across the country.

Availability of data on housing finance

Information on financing housing sector developments is available from Bank of Uganda's publications on private sector credit. Price movements for properties in the real estate sector are also tracked and published on a quarterly basis by the Uganda Bureau of Statistics. Access to information on the number of new properties developed within a period of time remains difficult. However, engagements with key sector players, including mortgage banks and developers, offers insights into the state of the sector and prospects for growth.

Websites

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Uganda Bureau of Statistics https://www.ubos.org/
Ministry of Lands, Housing and Urban Development https://mlhud.go.ug
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