Centre for Affordable Housing Finance in Africa

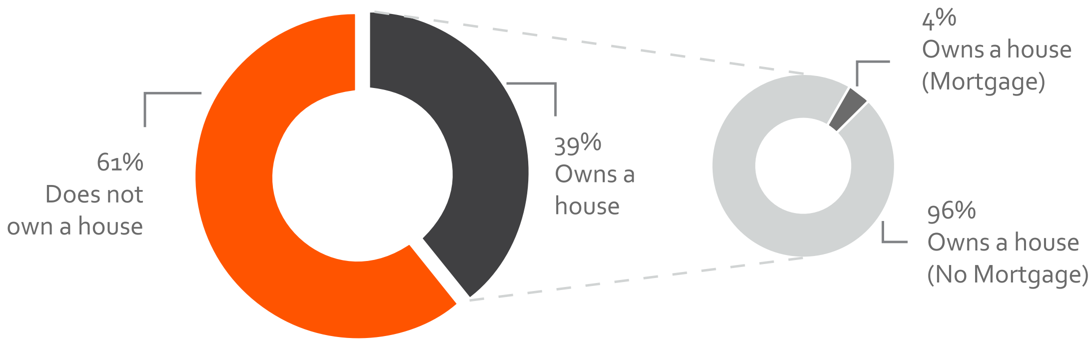
fsduganda Financial Sector Deepening

HOUSING INVESTMENT CHRONICLES IN UGANDA
DISCUSSION BRIEF ON FINANCIAL INSTRUMENTS

Uganda's housing sector has recorded notable growth, as signified by increasing investments by the private sector and a relatively favourable economic environment. The scale and magnitude of the housing deficit however remains high, with the market still unable to cater for the housing needs of low and middle income households.

A key gap in this sub market remains the lack of appropriate and effective financial instruments for supporting households' investment journeys. Existing financial instruments – such as home loans and mortgages – remain in their embryonic stage and are therefore inadequate to respond to the housing finance needs of low and middle income households.

The majority (over 90%) of respondent households generated their incomes from low-paying formal, or informal sources of employment.



From our survey, we found that only 4% of home owning respondents had mortgages.

	INSTRUMENT	INSTITUTION	DEFINITION
FORMAL	Home loans	Commercial banks	Medium-to-long-term products customised for housing purchase, construction or improvement.
	Short term loans	Commercial banks	Short-term loans with both regular and irregular repayments targeting home owners with regular income. Interest rates are charged on the declining balances.
	Personal savings	Individuals	Households' savings kept for non-immediate use, and mainly stored in banks and accessed by households at will.
	Group SACCOs	SACCOs	Organised community savings groups that allow members to borrow easily using their savings and repayment history as collateral. Some of the SACCOs have associated into formal micro finance institutions.

INFORMAL	Soft loans	Community	Money borrowed from friends and relatives, with amount and repayment based on trust.
	Private money lenders	Community	Loans received from private money lenders with interest.
	Remittances	Community	Money received from friends and relatives abroad, also based on a trust system.
	Group SACCOs	Community	Arrangements whereby people come together and collect money, save it and lend it out to fellow members at a specific interest rate. SSACO members can borrow from their SACCO to meet their housing needs.

This Discussion Brief is drawn from the larger Housing Investments Chronicles in Uganda research report, which is available at: http://housingfinanceafrica.org/documents/uganda-housing-investment-chronicles/

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KEY BARRIERS IN ACCESSING HOUSING FINANCE

1. As most low and middle income households do not have significant capital assets, access to formal financial opportunities is hampered. Furthermore, unresolved structural and procedural bottlenecks within the country's banking system persist, limiting the access to these resources, and thus indirectly exacerbating the housing problem.

2. The uptake of home loans and mortgages in Uganda has remained low largely due to high interest rates and loan terms in comparison to other countries within the region. With interest rates as high as 16 percent (compared to Kenya 14 percent and Tanzania 13 percent), Uganda's low and middle income households find it difficult to meet the requisite demands for accessing housing finance. Where such loans are accessed, repayment remains a challenge, thus excluding many low and middle income households.

3. The majority of low income households and a sizeable proportion of middle income households living in the GKMA lack bankable capital assets to use as collateral. Most of the land within the GKMA is still held under the Mailo tenure, and is thus encumbered by competing layers of claims, thus making its documentation inadequate as collateral.

4. Residents also highlighted lack of knowledge about formal processes of accessing housing finance as a key barrier and this could be because information about available and accessible housing financing options has not adequately penetrated the intended market.

5. The construction sector has been experiencing a volatility of prices of building materials, and this complicates access to housing financing for low and middle income households. Residents noted that this has complicated their planning and budgeting processes and their ability to access finances.

6. Slow and complex bureaucratic systems, including banking and financing systems coupled with external systems such as delayed plan approval, slow down the process of accessing housing finance. Required application documents and steps also delay loan approval.

This chart indicates the number of steps required to access formal and informal finance, highlighting why many households prefer to access funds through 'informal' channels.

RECOMMENDATIONS

1. Collate and consolidate existing datasets and information on housing finance from different actors (state and non-state) to integrate knowledge for more cohesive and coherent interventions.
2. Engage and encourage key actors to develop alternative financing mechanisms for housing, including microfinance institutions, cultural institutions, housing professionals and professional bodies, real estate management and development agencies, construction firms, local building artisans, and construction material production firms.
3. Develop and adopt targeted incentives and strategic partnerships to channel investment into low-cost and affordable housing.
4. Revise existing housing finance facilities (e.g. home loans and mortgage facilities) to customise them for low and middle income household needs.
5. Scale up innovative mechanisms and housing instruments to promote greater financial inclusion and equity.
6. Mobilise low and middle income households to join housing cooperatives to enable pooling of resources for greater impact.

CITATIONS

Atuheire, K., and Karyeija, G. K.. (2014). "The Role of Financial Institutions Towards Affordable Housing to Middle Income Earners: Evidence from Kampala City, Uganda", African Journal of Social Work, 2014, 4(2), pp.1–37. https://www.ajol.info/index.php/ajsw/article/viewFile/127533/117058

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