



UGANDA: ACCESS TO HOUSING FINANCE

Discussion Session in Kampala, Uganda:
2nd July 2008, Mosa Courts Apartments

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Introduction

The report on the housing finance sector in Uganda is the fourth of a series of studies which explore access to housing finance in various African countries. Earlier reports assess housing finance sectors in Zambia, Botswana and Kenya. These studies were commissioned by FinMark Trust, which aims to promote and support policy and institutional development towards the objectives of increasing access to financial services by the un-banked and under-banked in Africa. Forthcoming studies are in the countries of Rwanda, Namibia, Mozambique and Ethiopia.

To disseminate report findings on Uganda's housing finance sector, a two-hour workshop was organized by UMACIS Consulting¹ on 2nd July at the Mosa Courts Apartments in Kampala. Key findings discussed included: (i) how the country's housing sector has functioned/failed to function among low income households and (ii) both mortgage and non-mortgage housing finance and formal and informal mechanisms of accessing housing finance. The workshop was attended by 30 participants from the housing and finance sectors and the donor community (*See Appendix I for the list of participants*). Dr. William Kalema, the Director of UMACIS Consulting chaired the workshop.

Workshop summary

The workshop comprised of three sessions. The first session focused on access to housing finance in sub-Saharan Africa. The second session was on how the housing finance sector in Uganda has functioned/failed to function from the 1960's to date. The last session was an open discussion devoted to questions and feedback from participants on how housing for low-income earners can be effectively delivered.

¹ UMACIS Consulting was commissioned by FinMark Trust to review Uganda's housing finance sector

Workshop objectives

As noted above, the workshop was organized to disseminate report findings on Uganda's housing finance sector. It informed key stakeholders in the housing and finance sectors and the donor community on the current status of the country's housing finance sector, particularly amongst low-income earners. Participants were able to: (i) assess the effectiveness of housing finance in relation to the general housing conditions in the country; (ii) conceptualize the need for more housing microfinance products for low-income earners; and (iii) discuss ways of improving access to housing finance among low-income earners.

Workshop proceedings

Dr. Kalema welcomed participants to the workshop and asked them to introduce themselves to allow for convenient interactions. He later took them through the workshop programme, briefly highlighting the objectives of the workshop and how each session will be conducted. In conclusion, he emphasized that the workshop was intended to be interactive and participatory to devise more appropriate actions on how to enhance access to housing finance for the low and moderate income earners in the country.

Presentation by Dr William Kalema: Overview of Housing Finance in Sub-Saharan Africa

In his presentation, he gave a synopsis of FinMark Trust on housing finance using its housing finance theme area. He then described the status of housing finance in countries where FinMark Trust has so far commissioned studies on the housing finance sector. Using the example of slum landlordism in Kenya, he stressed the need for proper housing developments for the poor across Africa. Countries discussed in this presentation included South Africa, Botswana, Zambia, Namibia, Mozambique, Kenya, Uganda and Rwanda.

Presentation by Duncan Kayiira: Overview of the Housing Finance Sector in Uganda

This presentation summarized the status of Uganda's housing finance sector from the 1960s to date. Prior to an incisive analysis on the country's housing finance sector, participants were first briefed on competencies of UMACIS Consulting, both in the private sector development and in housing development research. This was followed by a brief on the development partners (FinMark Trust and Habitat for Humanity, International) that funded this study. Mr. Kayiira later gave a general overview on (i) how the study was executed, (ii) the historical background of the housing finance sector and (iii) the country's economic status. The current housing finance sector was then discussed in detail before challenges facing the sector and recommendations on key issues that are still outstanding were presented.

Feedback from participants

In this section, we categorize comments made by participants under the following sections: (i) Housing Micro-Finance, (ii) Mortgage Finance, (iii) Housing Supply and Demand, (iv) Interest Rates, (v) Land Issues and (vi) Other Issues.

Housing Micro-Finance

1. **Mr. Vincent Tumusiime, Global Trust Bank:** Terms under which Micro-Finance Institutions (MFIs) and Saving and Credit Cooperatives (SACCOs) borrow should be eased to allow more housing micro-finance products. Particularly, the high interest rates at which they borrow should be subsidized.

2. **Mr. Andrew Sooka, Habitat for Humanity-Uganda:** Despite being in the housing industry for 20 years, Habitat for Humanity-Uganda has not built enough houses for low-income earners. This is largely attributed to the commodity index system² we were using, which in some instances was abused. For example, some individuals claimed that our houses were too small while others failed to pay for them. We are now supporting an MFI to issue housing micro-finance products to low-income earners. Mr. Sooka also noted that it will be important to set up a social program to cater for housing needs of Ugandans that earn below US\$ 50,000.
3. **Mr. Samuel Mabala, Ministry of Housing and Urban Development:** There is a need to put in place incentives that will attract private sector investment in low cost housing. Financing rental housing is another avenue that can be explored to cater for low-income earners since they can not afford owning a house.

Mortgage Finance

4. **Mr. William Walaga, Ministry of Housing and Urban Development:** He applauded UMACIS Consulting for the incisive and accurate presentations on the country's housing situation. On incremental building, he advised institutions that issue housing finance products to un-package house construction loans. This is premised on the fact that a number of houses have failed to be completed due to the inappropriate use of these loans. "It will be important that loans are issued for specific construction stages and issuing institutions should ensure that these loans are wholly used on what they have been drawn out for." On building a database for houses on sale and those under construction, Mr. Walaga noted that it may not be viable given the financial implications that will be involved.

Housing Supply and Demand

5. **Mr. James Kanagwa, ECO Bank, Ghana:** Real Estate Developers need to understand the dynamics of the market before they engage in housing development projects. "What is the average cost of a house that can be afforded by moderate income earner?" Such questions should be put into consideration before they (Real Estate Developers) embark on building highly priced houses. Mr. Kanagwa also pointed out that over the years, Real Estate Developers have relied heavily on the brick and mortar building technology and yet there other cheaper technologies that can be used to cater for the housing needs of an average Ugandan.
6. **Mr. Vincent Agaba, Avarts Housing Limited:** An association of Real Estate Agents has been established, for which I am the chairman. Part of our initial activities is to build a price index of all houses on the market. We also plan to create a database of houses on sale and those under development with support from partner associations like the Uganda Mortgage Association and the Institute of Valuers. Lastly, our association is also advocating for the use of appropriate technologies to build affordable houses at an average price of US\$ 17 million (US \$ 10,240). This will be done in partnership with Good Earth Trust.
7. **Ms. Lisa Baumgartner, Good Earth Trust, United Kingdom:** Good Earth Trust has teamed up with Avarts Housing Limited and Dr. Musazi of the Faculty of Technology, Makerere University to promote the use of appropriate technologies like the Interlocking Soil Stabilized Block (ISSB) in constructing affordable houses for Ugandans.

Interest Rates

8. **Ms. Verna Mbabazi, National Housing and Construction Company:** The current commercial bank interest rates are prohibitive. Ways should be sought on how they can be reduced. For example, before interest rates are set, it will be important to also consider the current prices of houses on the market. This could be used as a guide in setting realistic rates. However, commercial bank interest rates are still greatly influenced by the high Treasury Bill (TB) rates and the increasing inflation rates.
9. **Mr. Leonard Mpuuma, Housing Finance Consultant:** Housing is a social good and a human right. Given the dismal state of housing supplies in the country, it will be important to establish whether UN Conventions on human rights, to which Uganda is a signatory, are not

² The commodity index is the cost of the house plus a 10% administrative cost divided by the current cost of a bag of cement

being violated! Mr. Mpuuma also noted that there is need to revive the insurance industry as was the case with finance sector. This will help in mobilizing long-term funds for the housing finance sector. Fiscal discipline at national level is critical in reducing the high commercial bank interest rates. "Uganda has for long depended on donor funds to support its budget, and as a result, interest rates are high". We should emulate countries like Tanzania which have a budget surplus as opposed to Uganda's consistent budget deficits. In conclusion, he stressed the need for Government to zero-rate Valued Added Tax (VAT) on housing to boost the industry.

10. **Mr. David Ninyikiriza, Housing Finance Bank:** Real Estate Developers need to establish client's needs to enable them build houses that will cater for all income groups. On the high interest rates, government has to exert its influence to reduce them. In 2007, Housing Finance Bank started the growing house product to cater for low and middle-income earners. However, it has of late been hijacked by the high-income earners. The bank also issues salary loans which have unconsciously gone towards home improvement.

Land Issues

11. **Mr. Emmanuel Byaruhanga, Shelter and Settlements Limited:** Uganda's Land Tenure systems are very difficult to manage since they are all practiced differently. In effect, it will be hard for government to set aside land for low housing development. Mr. Byaruhanga also noted that, the National Housing and Construction Company is mandated to provide housing for low income earners, but this is not actually the case. In conclusion, he said the brick by brick approach is another way in which low-income earners can gradually build houses.

Other Issues

12. **Mr. Stephen Kadali, Habitat for Humanity-Uganda:** Resources centres should be put in place to advice Ugandans on the type and size of houses that fit within their income. This will help address culture and attitudinal issues that have influenced a number of Ugandans build houses that are beyond their means.

WAY FORWARD

Dr. Kalema thanked participants for their fruitful deliberations on how to improve access to housing finance among low-income earners. He said recommendations made both in the report and at this workshop will be followed up in the National Consultative Group³ on housing which is organized by UMACIS.

In summary, recommendations were made on the following topics:

Category	Recommendation	Comment
Policy & regulation	<ul style="list-style-type: none"> ▪ Zero-rate VAT on housing-related products and services ▪ Subsidise interest rates for housing finance ▪ Incentives to attract private sector investment in housing ▪ Establish way to finance rental housing for low income earners ▪ Social programme for Ugandans earning less than US\$50,000 ▪ Revise land tenure regulation 	Government has reduced VAT on housing from 18% to 5%

³ In 2005, UMACIS Consulting (umacis@utlonline.co.ug) was commissioned by UN-Habitat to prepare a country paper on the status of the formal housing industry. The paper was aimed at assisting the Government of Uganda organize the East African Peer Exchange, which had a theme: "Government Enablement of Private Sector Lending for Affordable Housing." As follow up to the Peer Exchange, UMACIS (with funding from UN-Habitat) organized a follow up meeting on financing for affordable housing. In order to maintain the momentum of the recommendations made in this meeting, a National Consultative Group (NCG) for Uganda was set up and is co-chaired by the East African Development Bank and the Ministry of Finance, Planning and Economic Development. UMACIS was chosen to organize and facilitate the regular meeting of this Group. Nine NCG meeting have so far been held.

Category	Recommendation	Comment
Product development	<ul style="list-style-type: none"> ▪ Develop products that align more appropriately with the development process (i.e. construction loan pay-out in stages) ▪ Need for Real Estate Developers to execute extensive research on the dynamics of the market before engaging housing developments 	Housing Finance Bank launched the "Growing Housing Product" in 2007. However it is for houses that have built to the ring-beam or wall-plate level
Housing finance	<ul style="list-style-type: none"> ▪ Mobilise insurance industry investment as a source of long term finance ▪ Identify mechanisms to finance rental housing 	National Insurance Corporation is to issue an Initial Public Offer (IPO) on the Uganda's Securities Exchange later this year.
Housing support services	<ul style="list-style-type: none"> ▪ Promotion of alternative technologies ▪ Resource centres to assist households realise affordable housing solutions 	Good Earth Trust involved in this with Avarts Housing Ltd.
Information and data	<ul style="list-style-type: none"> ▪ Development of a house price index ▪ Development of a database of housing for sale and forthcoming developments 	Avarts Housing Limited addressing this with partners. Contact: www.avartshousingagency.com or vincent@avartshousingagency.com