



UGANDA MANAGEMENT INSTITUTE

**ASSESSING THE ROLE OF FINANCIAL INSTITUTIONS  
TOWARDS AFFORDABLE HOUSING TO MIDDLE INCOME  
EARNERS IN KAMPALA CAPITAL CITY**

**BY**

**KENNETH ATUHEIRE**

**REG. No. 12/MMSUBG/28/026**

**A DISSERTATION SUBMITTED TO THE SCHOOL OF MANAGEMENT  
STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE  
AWARD OF THE MASTERS' DEGREE IN MANAGEMENT STUDIES  
(URBAN GOVERNANCE AND MANAGEMENT) OF  
UGANDA MANAGEMENT INSTITUTE**

**OCTOBER 2014**



**DECLARATION**

I, Kenneth Atuheire, declare that this study is original and has not been submitted to any other institution for any award.

Signed -----

Kenneth Atuheire

Date: .....

## APPROVAL

This is to certify that the following research conducted by Kenneth Atuheire under the title “Assessing the Role of Financial Institutions towards Affordable Housing to the Middle Income Earners in Kampala Capital City” has been under our supervision, and is now submitted for examination.

Signed..... Date: .....

Dr. Gerald Karyeija,  
Main Supervisor

Signed..... Date: .....

Mr. Yikii Christopher Agatre  
Assisting Supervisor

## **DEDICATION**

This work is dedicated to my wife (Mariam N. Namusiisi) and Daughter (Myra Ahereza).

Thank you for the support and encouragement you extended to me while undertaking this Masters' Degree in Management Studies (Urban Governance and Management) programme at Uganda Management Institute, Kampala.

## **ACKNOWLEDGEMENTS**

I am forever grateful to God who gave me the grace and strength without which I would have never completed this Masters in Management Studies (Urban Governance and Management) programme. I acknowledge with gratitude the opportunity granted unto me by Uganda Management Institute (UMI) to offer a Masters' Degree study in Management Studies specialising in Urban Governance and Management field.

I am extremely grateful to my supervisors, Dr. Gerald Karyeija and Mr. Yikii Christopher Agatre for their dedication, professional guidance and positive academic criticisms; thank you for mentoring me. I also want to thank all my lecturers for all the help provided they gave me throughout the programme.

I am very grateful to my family members for the support rendered. Special thanks go to my parents, my wife and daughter who braved my absence during the time I was undertaking this course; brothers, sisters and my in-laws who always provided encouragement and gave me the strength to go on; my course mates whose contribution immensely stimulated discussions, revisions and deeper understanding and conceptualisation of all issues. May the Almighty God richly bless you in your endeavours.

Lastly but not least, I extend my appreciation to all research participants (research assistants and respondents) who enabled the researcher to carry out this enormous task up to completion. May the good Lord richly bless you.

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>i</b>
<b>APPROVAL .....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iv</b>
<b>TABLE OF CONTENTS .....</b>	<b>v</b>
<b>LIST OF TABLES .....</b>	<b>x</b>
<b>LIST OF FIGURES .....</b>	<b>xi</b>
<b>ABBREVIATIONS AND ACRONYMS USED .....</b>	<b>xii</b>
<b>ABSTRACT.....</b>	<b>xiii</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Introduction .....	1
1.2 Background to the Study .....	2
1.2.1 Historical background .....	2
1.2.2 Theoretical background.....	3
1.2.3 Conceptual background.....	4
1.2.4 Contextual background .....	5
1.3 Statement of the Problem .....	6
1.4 General Objective.....	7
1.5 Specific Objectives.....	7
1.6 Research Questions .....	8
1.7 Hypothesis of the Study .....	8
1.8 Conceptual Framework .....	9
1.9 Significance of the Study .....	10

1.10	Justification of the Study.....	11
1.11	Scope of the Study .....	11
1.11.1	Geographical scope .....	11
1.11.2	Content scope .....	12
1.11.3	Time scope .....	12
1.12	Limitations of the Study.....	12
1.13	Operational Definitions.....	13
<b>CHAPTER TWO .....</b>		<b>15</b>
<b>LITERATURE REVIEW .....</b>		<b>15</b>
2.1	Introduction.....	15
2.2	Theoretical Review .....	15
2.3	Review of Literature .....	17
2.3.1	Introduction.....	17
2.3.2	The role of mortgage financing towards affordable housing.....	18
2.3.3	The role of housing loans towards affordable housing .....	20
2.3.4	The role of housing finance towards affordable housing.....	23
2.4	Summary .....	28
<b>CHAPTER THREE.....</b>		<b>30</b>
<b>METHODOLOGY .....</b>		<b>30</b>
3.1	Introduction.....	30
3.2	Research Design.....	30
3.3	Study Population .....	30
3.4	Determination of Sample Size .....	31
3.5	Sampling Techniques and Procedure.....	31



3.6	Data Collection Methods.....	32
3.6.1	Survey questionnaire .....	32
3.6.2	Interviews .....	32
3.6.3	Documentary review .....	33
3.7	Data Collection Instruments.....	33
3.7.1	Interview guide .....	33
3.7.2	Questionnaires .....	33
3.7.3	Document review checklist .....	34
3.8	Validity and Reliability .....	34
3.8.1	Validity.....	34
3.8.2	Reliability.....	35
3.9	Procedure of Data Collection .....	35
3.10	Data Analysis .....	36
3.10.1	Qualitative data analysis .....	36
3.10.1	Quantitative data analysis .....	36
3.11	Measurement of Variables .....	37
3.12	Ethical Issues.....	37
<b>CHAPTER FOUR.....</b>		<b>38</b>
<b>PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS.....</b>		<b>38</b>
4.1	Introduction .....	38
4.2	Response Rate .....	38
4.3	Background Findings .....	39
4.3.1	Age of customers of financial institutions .....	39
4.3.2	Gender of customers of financial institutions .....	40
4.3.3	Employment status of customers of financial institutions .....	40

4.4	Mortgage Financing and Affordable Housing .....	41
4.4.1	Descriptive results about mortgage financing.....	41
4.4.2	Descriptive results about affordable housing.....	47
4.4.3	Testing first hypothesis .....	49
4.5	Housing Loans and Affordable Housing .....	50
4.5.1	Descriptive results about housing loans.....	51
4.5.2	Testing second hypothesis .....	56
4.6	Housing Finance and Affordable Housing.....	57
4.6.1	Descriptive results about housing finance.....	57
4.6.2	Testing third hypothesis .....	63
<b>CHAPTER FIVE .....</b>		<b>66</b>
<b>SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS.....</b>		<b>66</b>
5.1	Introduction .....	66
5.2	Summary of Findings .....	66
5.2.1	Mortgage Financing and Affordable Housing .....	66
5.2.2	Housing Loans and Affordable Housing .....	67
5.2.3	Housing Finance and Affordable Housing.....	68
5.3	Discussion .....	69
5.3.1	Mortgage Financing and Affordable Housing .....	69
5.3.2	Housing Loans and Affordable Housing .....	71
5.3.3	Housing Finance and Affordable Housing.....	73
5.4	Conclusions .....	75
5.4.1	Mortgage Financing and Affordable Housing .....	75
5.4.2	Housing Loans and Affordable Housing .....	76
5.4.3	Housing Finance and Affordable Housing.....	76

5.5	Recommendations .....	76
5.5.1	Mortgage Financing and Affordable Housing .....	77
5.5.2	Housing Loans and Affordable Housing .....	78
5.5.3	Housing Finance and Affordable Housing.....	79
5.6	Area for Further Study .....	80
<b>REFERENCES.....</b>		<b>81</b>
<b>APPENDICES .....</b>		<b>85</b>
	Appendix 1: Survey Questionnaire for Credit Officers .....	85
	Appendix 2: Interview Schedule for Directors and Branch Managers .....	86
	Appendix 3: Interview Schedule for Other Stakeholders in Housing Sector.....	87
	Appendix 4: Survey Questionnaire for Beneficiaries .....	88

## LIST OF TABLES

Table 1: Distribution of Respondents .....	31
Table 2: Validity of questionnaire .....	34
Table 3: Reliability of questionnaire.....	35
Table 4: Response rate .....	38
Table 5: Distribution of customers of financial institutions by age.....	39
Table 6: Distribution of customers of financial institutions by gender .....	40
Table 7: Distribution of customers of financial institutions by employment status .....	40
Table 8: Findings about mortgage financing .....	42
Table 9: Findings about affordable housing .....	47
Table 10: Correlation between mortgage financing and affordable housing.....	49
Table 11: Findings about housing loans .....	51
Table 12: Correlation between housing loans and affordable housing.....	56
Table 13: Findings about housing finance .....	58
Table 14: Correlation between housing finance and affordable housing .....	64

## LIST OF FIGURES

Figure 1: Conceptual framework depicting the effect of Mortgage Financing, Housing Loans and Housing Finance towards affordable housing .....	9
--	---

## ABBREVIATIONS AND ACRONYMS USED

<b>Acronym</b>	<b>Description</b>
CAHF	Centre for Affordable Housing Finance in Africa
CVI	Content Validity Index
DFCU	Development Finance Company of Uganda
FINCA	Federation for International Community Assistance
GDP	Gross Domestic Product
HFB	Housing Finance Bank
HFHU	Habitat for Humanity Uganda
HREA	Human Rights Education Associates
KCB	Kenya Commercial Bank
KCCA	Kampala Capital City Authority
KShs	Kenya Shillings
MDIs	Micro-Finance Deposit Taking Institutions
MoLHUD	Ministry of Lands, Housing and Urban Development
NSSF	National Social Security Fund
SACCOS	Savings and Credit Cooperative Societies
SPSS	Statistical Package for Social Scientists
UBOS	Uganda Bureau of Statistics
UGX	Uganda Shillings
UMI	Uganda Management Institute
UNCHS	United Nations Centre for Human Settlements
US\$	United States Dollars
€	The Euro which is the currency used by the Institutions of the European Union and is the official currency of the Eurozone, which consists of 18 of the 28 member states of the European Union.

## ABSTRACT

The general objective of the study was to assess the role of financial institutions towards affordable housing to middle income earners in Kampala Capital City. Specific objectives were to: (a) assess the role of mortgage financing towards affordable housing to middle income earners in Kampala Capital City; (b) assess the role of housing loans towards affordable housing to the middle income earners in Kampala Capital City and (c) assess the role of housing finance towards affordable housing to the middle income earners in Kampala Capital City. A case study design was used. A sample size of 113 respondents was selected using both probability and non-probability sampling methods. Purposive sampling was used to identify top management officials such as bank managers, directors and loan officers while systematic sampling was employed to select customers of financial institutions. Qualitative data analysis commenced with identification of themes and categories that were evaluated and analysed to determine adequacy of information, credibility, usefulness, consistency, validation or non-validation of hypothesis. Quantitative data was analysed using frequencies and percentages plus Spear Man's Rank Correlation and coefficient of determination. Findings revealed a weak positive effect ( $\rho = .312$ ) of mortgage financing towards affordable housing and accounted for 9.7% change in affordable housing. This study also established a moderate positive effect ( $\rho = .472$ ) of housing loans towards affordable housing and accounted for 22.3% change in affordable housing. Findings further revealed a weak positive effect ( $\rho = .345$ ) of housing finance on affordable housing and contributed to 11.9% change towards affordable housing.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Introduction**

Access to adequate and affordable housing is a growing challenge for all countries worldwide and particularly in Africa. Most housing problems in Africa are largely related to affordability – where housing is expensive and household incomes are too low. Many urban households faced with few other options, have resorted to living in substandard housing with inadequate facilities. These are mainly in informal settlements. To make matters worse, they are made to pay an inordinate share of their incomes for such housing which worsens their standards of living.

The increased demand for housing in urban centres of Africa is an outcome of rapid and large scale urbanization which is mainly due to rural urban migration and high population growth rates. The migration of rural households to urban areas in search of better opportunities has placed and will continue to place immense pressure on affordable land and housing in such urban areas. For instance, in 2010, Africa's total population surpassed 1 billion people (UN Habitat 2011) and is further projected to significantly increase. Similarly, by 2025 nearly half of Africa's population will be living in urban areas. This is due to sustained urbanization rates estimated at 3.3% from 2010 to 2015; 3.1% from 2015 to 2020 and 2.3% from 2020 to 2025 (UN Habitat, 2011). This implies that in the next fifteen years, urban Africa will have an extra 40,000 people to accommodate daily (UN Habitat, 2010a, Pg. 238). Estimates for the period between 2001 and 2011 indicated that over 60 million new dwellings should be constructed to accommodate the rapidly growing number of new urban households in Africa



(UNCHS, 2001c, quoted by UN Habitat, 2011). This excluded replacement of inadequate and dilapidated housing units or construction of additional units to relieve overcrowding. This therefore makes the construction of affordable and adequate urban housing a very serious issue in most African countries including Uganda.

## **1.2 Background to the Study**

Cities have provided an avenue for upward mobility and for that reason they have remained a magnet for rural migrants (Freire & Stein, 2001). One consequence of this is the growing demand for adequate and affordable housing. Many cities worldwide are faced with the challenges of providing affordable and adequate housing to its habitats.

### **1.2.1 Historical background**

As United Nations statistics confirm, the world's population increased from 2.5 billion in 1950 to 6 billion in 2002. Sixty per cent of this population is in urban areas of developing countries. This is projected to increase by more than 2 billion people within 30 years (UN Habitat, 2010). This represents an annual increase of seventy million people, all of whom will need land, housing, services and most importantly work primarily in urban areas (Payne & Majale, 2004). UN Habitat (2010a) further projects that by 2025, 47.2 per cent of Africa's population will live in cities. Such remarkable urbanization seems to suggest that for the next 15 years, urban Africa will have an extra 40,000 people to accommodate daily (UN Habitat, 2011). This requires a considerable increase in the provision of land, housing units, finance, services, materials and labour annually to meet the

projected demand. This will strain the already overstretched professional, technical and material resources (UN Habitat, 2010).

The leading Uganda Daily Newspaper reported that, Kampala Capital City experienced shortage of housing units due to rapid population growth. It further quotes that by 2008, Kampala had a housing deficit of 100,000 units with approximately 500,000 people in need of housing. The housing deficit was projected to increase to one million by 2025 (Baguma, 2008; UBOS, 2005).

According to the National Housing and Census Report (UBOS, 2005), Kampala City housed 1,189,142 people by 2002. This population was projected to increase from 1,597,900 by 2010 to 1,723,300 by 2012 and 3.03 million people by 2020 at an annual growth rate of five percent (UBOS, 2010). This implies that 4.8 million people within Kampala Capital City will be forced to either squeeze themselves into other people's homes, sleep on the streets or in makeshift structures if no efforts are made to avert the increasing housing deficit in Uganda. To meet the country's urban housing needs, extensive capacity building programmes are required to ensure supply of adequate skilled personnel to manage the increased demand for housing and related development (UN Habitat, 2010).

### **1.2.2 Theoretical background**

The study was guided by the Lifestyle Theory advanced by Salaama (2006). The theory's assumption is that each individual has a preferred lifestyle that can only be satisfied by a particular type of housing unit. The lifestyle theory was selected since it explains better the beliefs and aspirations of the target group within Kampala Capital City. The theory also categorises people into different categories

based on the class of employment and income levels. The lifestyle theory was supported by Hujrup (2003) in his Work Based Theory which, assumes that the required type of housing unit is determined mainly by people's values constrained by cultural modes. Hujrup argues that whatever category an individual falls into, has a lot of influence on the type of housing he/she prefers. For instance, the self-employed category will require a housing unit that facilitates living and working in the same space, the wage earner will require a housing unit that provides space for spending free time and relaxation while the career oriented category will require a housing unit that reflects personal progress for position, social status, past and present experiences (Salaama, 2006).

The above theories helped the researcher to analyse issues of affordability such as income levels of the target group, their perceptions and attitudes towards housing. With the help of the above theories, the researcher was able to make informed recommendations to the responsible authorities including to always undertake comprehensive needs assessment when providing housing than basing on projected demand for housing. This approach has not and will not reduce the inadequacy of affordable housing in Kampala Capital City in particular and Uganda in general.

### **1.2.3 Conceptual background**

In this study, the role of financial institutions was the Independent Variable and affordable housing was the Dependent Variable. In this study, financial institutions refer to any institutions licensed and registered by Bank of Uganda to transact money related business activities in Uganda. The role of financial

institutions had several dimensions including housing loans, mortgage financing and housing finance. These roles have both positive and negative implications to the acquisition of affordable housing by middle income earners in Kampala Capital City. Middle-income earners were conceptualised to include all persons who earn a monthly gross salary ranging between UGX 300,000 and UGX 800,000.

Affordable housing was conceptualized under the following categories: the type and cost of building materials used, duration of house acquisition and the total cost of the complete house. All these affect the affordability of a house, for instance, when building materials are affordable so is the house. Similarly, when the construction of a house is done at the convenience of the middle income earner, it is considered affordable. This is due to the fact that only savings may be used in the construction without pressure and interest rate charges unlike the one who construct using mortgage funds or housing loans.

#### **1.2.4 Contextual background**

Kampala Central division is one of the five municipalities of Kampala Capital City Authority. Due to its central location, it attracts a lot of rural-urban migrants. This has resulted into tremendous increase in Kampala City's population from 330,700 in 1969 to 1,208,544 in 2002 and 1,811,794 in 2010. This is further projected to increase to 3,030,000 by 2020 (UBOS, 2010). This represents an average annual increase of 18,000 households by 2020. An equal number of additional housing units is required annually, to meet the projected demand,

excluding obsolete housing stock earmarked for replacement, or any attempt to reduce overcrowding (UN Habitat, 2010). Similarly, a considerable increase in the provision of skilled personnel, land, housing finance, services, materials and labour is required, to meet this increasing housing demand.

### **1.3 Statement of the Problem**

Despite the increasing number of licenced financial institutions offering financial packages to enable middle income earners acquire affordable housing, the inadequacy of affordable housing in Kampala Capital City is still on the rise. This is supported by the Uganda Bureau of Statistics Report, 2005, which indicates that Kampala Capital City, had a housing deficit of 100,000 housing units by then and was projected to increase to one million housing units by 2025 (UBOS, 2005; Baguma, 2008). This implies that millions of urbanites will be forced to either squeeze themselves into other people's homes, sleep on the streets or in makeshift structures made of old tins and wood usually near piles of stinking rubbish located in unhygienic areas.

More so, lack of an enabling housing policy in Uganda has worsened the housing situation in Kampala Capital City. For instance, an individual developer is responsible for land acquisition, house construction, construction of access road and provision of utilities such as electricity, water and sewerage network connections. This makes housing acquisition too expensive for majority city dwellers and their only alternative to affordable housing is in the informal settlements. These statistics do not reflect the Government of Uganda's commitment in attaining the Millennium Development Goals especially Goal No.

7: target No 3 which states that “By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers”. This however, indicates that the problem of inadequate affordable housing is getting out of hand.

Whereas, several studies had been carried out on the provision of affordable housing in Uganda, it appeared that there were no studies done to assess the role of financial institutions towards affordable housing to middle income earners in Kampala Capital City. This, therefore, became the focus of the study.

#### **1.4 General Objective**

The general study objective is to assess the role of financial institutions in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City.

#### **1.5 Specific Objectives**

The specific objectives are:

- (i). To assess the role of mortgage financing in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City;
- (ii). To assess the impact of housing loans in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City;
- (iii). To assess the impact of housing finance in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City

## **1.6 Research Questions**

- (i). What role has mortgage financing played in facilitating middle income earners in Kampala Capital City to acquire affordable housing?
- (ii). What is the impact of housing loans in facilitating middle income earners in Kampala Capital City to acquire affordable housing?
- (iii). What impact has housing finance had in facilitating middle income earners in Kampala Capital City to acquire affordable housing?

## **1.7 Hypothesis of the Study**

- (i). Mortgage financing plays an important role towards affordable housing to middle income earners in Kampala Capital City;
- (ii). Housing loans have not facilitated the acquisition of affordable housing by the middle income earners in Kampala Capital City; and
- (iii). Housing finance has had a significant impact in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City.

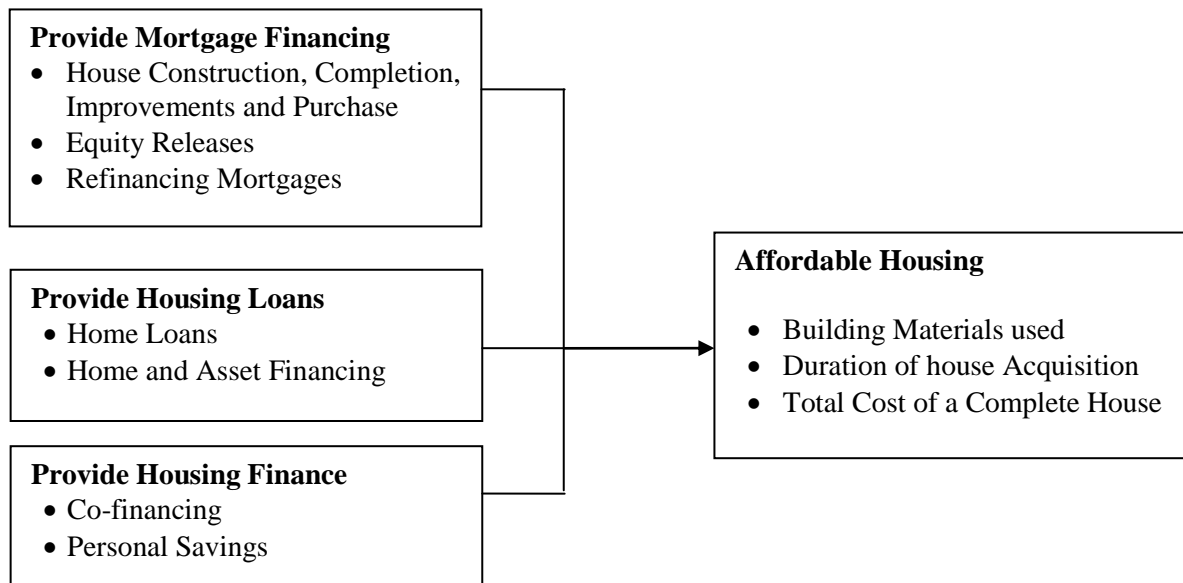
## 1.8 Conceptual Framework

### Independent Variable (IV)

### Dependent Variable (DV)

Role of Financial Institutions

Affordable Housing



*Source: Generated by the Author, May 2013*

**Figure 1: Conceptual framework depicting the effect of Mortgage Financing, Housing Loans and Housing Finance towards affordable housing**

The conceptual framework in Figure 1 above explains the relationship between the Independent Variable (role of financial institutions) is operationalized by Mortgage Financing, Housing Loans and Housing Finance. The Dependent Variable (affordable housing) is defined by the type of building materials used, duration of shelter acquisition and the total cost of a complete house. The model assumes that when housing finance is well packaged, majority if not all middle income earners will acquire such facilities for the provision of affordable housing units. However, several issues such as their lifestyles, attitudes and various requirements by financial institutions such as proof of income, credit history of the borrower, security for the loan and mandatory monthly instalment payments



might repel middle income earners from acquiring such facilities. Thus, middle income earners' inability to acquire affordable housing facilities.

The above statement seems to suggest that there are other factors that are responsible for the inadequacy of affordable housing in Kampala Capital City other than financing for housing development.

### **1.9 Significance of the Study**

Study findings added to the body of already existing knowledge on housing provision in developing countries especially for the middle income earners.

Study findings provided an insight on other factors responsible for the persistence of inadequate housing amongst the middle income earners in spite of all interventions by financial institutions in Uganda.

The study findings will help policy makers in formulating favourable policies that will facilitate the acquisition of affordable housing to urban residents especially the middle income earners in Uganda.

The findings provided an insight into the procedural requirements by financial institutions in facilitating the acquisition of affordable housing by the middle income earners. Thus, bridge the gap between financial institutions and middle income earners who require assistance in acquiring affordable housing.

## **1.10 Justification of the Study**

Housing is a basic need both in urban and rural areas. Housing provides shelter and protection from vagaries of weather, a place where fundamental functions such as eating, sleeping, reproduction and commercial production takes place (Majale, 1998). However, increased population, inadequate financial and natural resources have resulted in widespread homelessness and habitation in inadequate housing (Human Rights Education Associates (HREA, 2013). This is attributed to the fact that good quality legal housing in most cities of Africa and Asia is beyond the reach of the majority low and middle income households (Mitlin, 2008).

Despite several interventions made by various financial institutions in Uganda to facilitate the acquisition of affordable housing by the middle income earners, housing deficit is still on the increase. To avert this situation, large quantities of affordable housing are required to meet the ever-increasing demand for affordable shelter. It was on the basis of the above scenario, that the researcher was prompted to undertake this study on assessing the role of financial institutions in facilitating the acquisition of affordable housing by middle income earners in Kampala Capital City.

## **1.11 Scope of the Study**

### **1.11.1 Geographical scope**

The study was carried out in the Central Division of Kampala Capital City Authority. The selection of the study area was based on the high urbanization rates that have been experienced by the division. This is partly due to population

increase, her central location and the concentration of most of registered financial institutions in Uganda, operating in one locality.

### **1.11.2 Content scope**

For purposes of this study, the scope was confined to housing finance, housing loans and mortgage financing as the role of financial institutions in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City.

### **1.11.3 Time scope**

The study assessed the role of financial institutions for a period of five (5) years from 2007 – 2012. This was the time when the inadequacy of affordable housing was felt most in Kampala Capital City.

## **1.12 Limitations of the Study**

The major limitation was the unwillingness of selected officials to provide the required data and information due to restrictions posed by the organization's policy. However, this was mitigated by the use of relevant Introductory Letters from Uganda Management Institute (UMI) and equipping research assistants with the necessary skills of building rapport with selected respondents. Respondents were assured of confidentiality in relation to the garnered information, that it shall only be used for academic purposes.

### 1.13. Operational Definitions

**Adequate Housing:** Shelter that meets the basic standards in terms of tenure security, availability of services, materials, infrastructure, habitability, affordability, location and cultural adequacy;

**Affordable Housing:** Shelter for which the associated financial cost does not threaten the attainment of other basic necessities of life such as food, medical care and clothing and represents a reasonable proportion of an individual's overall income;

**Financial Institution:** Any institution licenced and registered by Bank of Uganda to transact money related business activities in Uganda such as Commercial Banks, Micro-finance Deposit Taking Institutions, Forex Bureaus and Savings and Credit Societies (SACCOS);

**Homelessness:** a situation where an individual lacks a fixed, regular and adequate accommodation at night or a situation where person's primary residence at night is a shelter designed to provide temporary living accommodation;

**Household:** a group of family members occupying a single dwelling;

**Housing:** Shelter where people live, a dwelling place for people;

**Income:** Amount of money that an individual earns over a specified period of time say a month or a year;

**Loan:** Financial assistance obtained from or provided by the financial institution for the sole aim of purchasing or constructing a residential house for the family;

**Middle-income earners:** in this study, these refer to persons who earn a monthly gross salary ranging between UGX 300,000 and UGX 800,000.

**Mortgage Financing:** This is where a financial institution lends money to an individual for the purchase or construction of residential property, where the property being financed acts as security for the loan or where an individual borrows money for the purchase or construction of residential property, where the property being purchased acts as security for the loan; and

**Mortgage:** A process where an individual offers property as security for the payment of a debt over a specified period.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter explored the available literature on housing in general and financing affordable housing in Uganda and worldwide. The chapter also explored the housing situation in Uganda, key actors in the housing market; discussions on housing finance from a global point of view and detailed housing finance systems in Uganda. The factors that affect financing affordable housing according to available literature were also reviewed and critically analysed with specific emphasis on the area of study.

#### **2.2 Theoretical Review**

The study was guided by the Life Style Theory by Salama A. M (2006). This helped the researcher to understand why many middle income earners cannot afford the existing housing units on the market. One of the assumptions is that the available houses do not meet their expectations and aspirations and are beyond their financial capacity to purchase. This was supported by Thomas Hojrup (2003) in his Work Based Theory, where he argued that people's values are constrained by cultural – relational dialectics that are product of cultural life modes. These according to him were categorized as follows:

- a) **Self-employed category** where the means of production are owned and included within the house. The house acts as both living and working place and there is no separation between working time and spare time;

- b) **Wage Earner Category** where the house is either regarded as a primary place for recreational purposes or as a place where important spare time activities are undertaken. This category constitute the main concern of the study since the middle income earners fall in this category; and
- c) **Career Oriented Category** where the house reflect personal progress in position, social status, past and recent experiences (Salama, A.M., 2006).

Davis, S (1995), argues that for housing to be referred to as affordable it must bestow on its inhabitants a sense of dignity. In support of the above, Alexander, C (1977), argues that people need to have a personal psychological investment in their houses and are well aware when asked to live in impersonal housing. Unattractive housing directly affects the self-respect of the occupants and all people want to see themselves reflected, to express themselves on paper and in speech, dance, and their choice of car, clothing or built environment. This was supported by Burnham, R (1998), who argued that if people are consistently told, through the kinds of housing offered, that they are only worth a certain level of quality, they come to believe it. Understanding such preferences and people's lifestyles gives architects and planners a chance to create a sense of individual expression and pride at an affordable cost.

Douglas, M (1996) cited by Salama A. M (2006) in explaining the theory of lifestyle on affordable housing introduced four different sub-cultures under the **Attitude Based Theory**, namely competition and individualism; isolation and avoidance of social controls; equity and negotiation; and hierarchical communities. He further argues that housing typology in terms of house size,

house integration within the neighbourhood and community, and the overall house image are crucial elements in understanding the theory of lifestyle on affordable housing.

It is therefore imperative, that every researcher on affordable housing understands these key concepts as key to developing mechanisms of inquiry about what housing environment people have experienced, would like to live-in in future; issues that reflect people's past experiences, social practices and future preferences, also known as **Status Based Theory** (Salama, A.M, 2006).

## **2.3 Review of Literature**

### **2.3.1 Introduction**

Housing involves a relatively high cost and in case of ownership is a long term investment (Christian and International Union of Building Societies and Savings Associations, 1980). The financing of housing should therefore preferably be long term based to match the long term nature of investment. Due to this, many urban families are not able to buy a house from their savings yet they cannot do without housing.

According to International Finance Corporation, 2004, housing accounts for a considerable portion of a nation's production activities through its backward linkages to land markets, building material industries, labour markets, and forward linkages to financial markets. In most developing countries, housing represents about 2% - 10% of the Gross Domestic Product (Datta and Jones, 1999). However, it is estimated that half of the world's urban population live in poverty;



about 600 million to one billion people live in substandard or inadequate housing (Datta and Jones, 1999; Erguden, 2001). Further, informal financing lies at the heart of daily creation and maintenance of slums, shanties, squatter settlements and pavement dwellings that provide homes to between 50% and 70% of urban population in cities of developing countries (Homeless International, 2013).

Demand for housing finance is derived from the demand for housing, which depends on household income levels. In addition, with housing costs typically being multiples of annual income, housing is made affordable by spreading payments over time, so adequate housing finance must be longer term in nature (Warnock, V.C. & Warnock, F.E. 2007). According to Ball (2003) in Warnock, V.C. & Warnock, F.E. (2007), even in the best of environments, housing is a major purchase with average home prices typically ranging from a minimum of four times annual income in developed countries to a minimum of eight times annual income in emerging economies, affordable only when payments are spread out over time (Pillay and Naude 2006).

### **2.3.2 The role of mortgage financing in facilitating the acquisition of affordable housing by the middle income earners**

In most urban areas in high-income nations and many middle-income nations, good quality, legal housing is expensive. Most of it would not have been built without mortgage finance; middle-income households, and even most upper-income groups, need mortgage to purchase housing or long-term finance to build the same. In most cities in Africa, Asia and Latin America, low-income households cannot afford legal housing or good quality housing. They either rent

(usually in poor quality overcrowded dwellings) or buy, or build in illegal settlements. They cannot get conventional housing finance because their homes are in illegal settlements and they lack the income or formal documentation that housing finance agencies require (Mitlin, 2008).

A growing number of microfinance agencies offer small loans for housing improvements. They usually offer finance only to individual households living on land with reasonably secure tenure, and they enable dwelling investment that usually entail adding a room, or an improved roof and/or floor, toilets and/or bathrooms.

In *KixiCrédito* in Angola, housing finance is offered to households that have been successful in enterprise borrowing; followed by the extension of shelter lending to other specific groups under alternative terms and conditions (Cain as cited by Mitlin, 2008). Similarly, the Kuyasa Fund in South Africa offered small loans for housing improvements and expansion to low-income households that have already benefited from state intervention through a housing capital subsidy programme. This programme provided a plot with legal tenure, services and an initial dwelling. In both cases, the rapid development of loan programmes illustrates the scale of demand for borrowing within low-income settlements for housing development or provision.

According to the article in the Kenyan Daily Nation, many Kenyan potential home owners are willing to finance a mortgage for a house but are unable to raise the required finances (“Financiers Target”, 2013). The article further states that “it

becomes especially very difficult for low and middle income earners and the younger market constituting 27.5 per cent of Kenyans aged between 20 – 39 years as they are unable to raise the required mortgage”. This clearly indicates that access to credit is one of the main obstacles to home ownership in Africa including Kenya. However, the improved economic conditions in Kenya have increased the number of Kenyans who have joined the middle income group over the last seven years from 1.5 million by 2002 to 3.9 million by 2009. It is further estimated that approximately 4.3 million housing units will be constructed between 2008 and 2030, of which 48 per cent will cater for middle income earners. This is in line with Kenya’s Vision 2030 and the Manifesto of President Uhuru Kenyata’s government (“Financiers Target”, 2013).

According to Kenya National Bureau of Statistics, only 16,000 homes have been successfully purchased through mortgage financing since independence. This is negligible compared to a total of 10.2 million Kenyans who were formerly employed by 2012. The article further states that, only 11 per cent of Kenya’s population can support prevailing mortgage costs while World Bank estimates that the Kenyan mortgage market has potential to grow to KShs 800 billion, approximately nine times the current size (“Financiers Target”, 2013).

### **2.3.3 The role of housing loans in facilitating the acquisition of affordable housing by the middle income earners**

According to Baharoglu and Lindfield (2000), cited by Mugambe, P. (2009), financial institutions generate funds from savings by individuals, other financial institutions, Government agencies, pension funds and corporate organizations. It is

these funds that are extended to households interested in buying or constructing houses and housing developers in form of mortgage and housing loans respectively upon compliance with the terms and conditions set by housing financial institutions for borrowing. These borrowers are then expected to service their loans through loan repayments in form of the principal and interest amounts.

The Uganda's financial sector is small, underdeveloped and dominated by commercial banks (International Monetary Fund, 2008). The Uganda financial system is currently composed of both regulated and non-regulated institutions. Among the regulated institutions are twenty (25) commercial banks, seven (7) credit institutions, four (4) micro-finance deposit taking institutions, insurance companies and the stock exchange (Bank of Uganda, 2012). The mortgage finance sector is dominated by five institutions namely Housing Finance Bank (HFB), Stanbic Bank Uganda, Development Finance Company of Uganda (DFCU) Bank, Barclays Bank and Standard Chartered Bank. Of these, HFB that was established in the 1980's by the Ugandan government leads the market, with 55% share of the total mortgage finance book value and 4% of total banking sector assets. By December 2010, her total mortgage portfolio was estimated at UGX 1.65 trillion (US\$ 660 million), or 4.8% of GDP, compared to UGX 771 billion (US\$ 308.4 million) in 2009, or 3.3% of GDP, and UGX 2.4 billion (US\$ 12.9 million) in 2002, or 0.3% of GDP.

The mortgage lending sector has diversified considerably since 2002, from residential mortgages only, to include commercial property, land purchase and construction finance to property developers. Residential mortgages still dominate

at 40% of the mortgage book. Between January 2009 and December 2010, mortgages to property developers almost doubled to UGX 271.9 billion, followed by residential mortgages growing by 38% to UGX 435.1 billion. Commercial mortgages recorded negative growth in the period and in December 2010 accounted for 15% of all mortgages in Uganda. Mortgages for land purchase comprise only about 3% of the total mortgage book.

In August 2013, the Bank of Uganda maintained its Central Bank Rate at 11% which meant that mortgage interest rates were still expensive, above 15%, thus serving only the high income earners. According to the World Bank's Global Financial Inclusion Database (Global Findex), only about 20% of adults over the age of 15 have an account at a formal financial institution and only 1% of adults say they have an outstanding loan to purchase a home, while 3.6% say they have a loan for home construction purposes. However, obtaining long-term funding has also always been a challenge, whereby banks rely mostly on their short-term deposits to provide mortgage finance, which means shorter terms for loan products.

In 2011, the European Investment Company granted a €40 million loan to five leading commercial banks in Uganda to assist in providing financial support in the areas of small and medium-sized enterprises, as well as housing. Also, the Kenya Commercial Bank (KCB) Uganda has invested US\$ 15 million to address the increasing need for mortgage facilities in the country. Uganda Microfinance Limited and Centenary Bank also provide home improvement loans which are short-term consumer loans designed for regular income earners to finance home

improvements; purchase of land, construction, renovation and installation of energy and water and to purchase furniture and recreational equipment. Pride Microfinance and Women's Finance Trust have also been providing loans that have indirectly gone to house construction. Pride Microfinance, for example, offers a micro-mortgage of between UGX 200,000 (US\$ 80) and UGX 2 million (US\$ 800).

Of the mortgage products on offer from commercial banks, a deposit of 20% to 30% is required, terms range from 5 to 20 years and they cover house construction, new home acquisition as well as house improvements. Interest rates were high over 18% in 2012, and this compromises loan affordability.

#### **2.3.4 The role of housing finance in facilitating the acquisition of affordable housing by the middle income earners**

Housing finance refers to any source of funding employed by households to acquire housing inputs and construction of a physical dwelling place. According to Bongwa and Welsh (2005) cited by Mugambe (2009), the concept of housing finance includes all aspects of financial flows related to housing from the first stage of mobilizing savings by a financial institution to the last stage of fully servicing the mortgage by the beneficiary. Adequate housing finance is considered the most important factor in housing production because it helps to procure essential components of housing, namely land, onsite and offsite infrastructure, building materials as well as offsetting construction costs (United Nations Centre for Human settlements, 1996). According to Warnock, V.C. and Warnock, F.E. (2008) cited by Mugambe (2009), it can be argued that the provision of housing

finance is a binding constraint that must be addressed before the housing market can sustainably provide adequate housing.

According to Mugambe (2009), the four basic models of housing finance are:

Revolving credit systems in form of rotating savings schemes and credit associations. Here, a small number of individuals form a group and select a leader who periodically collects a defined amount of money from each of them. The amount collected is given to each member of the group in rotation. Each member therefore receives exactly the amount contributed or how much the member will have contributed by the end of the rotation since the loans are interest free. Since in most cases the amounts raised are limited in amount, they may not be sufficient to finance construction of a house but can be used to partly finance housing acquisition as well as housing improvement;

Specialized housing finance institutions in form of building societies. These operate as private banks offering a variety of savings accounts to attract deposits from the general public with the main objective of extending loans to members who want to buy or construct houses. Building societies usually operate as non-profit entities but must generate income to pay interest on the depositors' savings and keep a reserve in their coffers;

Public finance organizations and Parastatal organization: Public finance organizations are public agencies providing direct financing of housing programs from public and external resources. They are common in centrally planned economies and developing countries. Similarly Parastatal organizations are those where majority of shares are owned by Government and they also extend direct financing of housing programs; and

Mortgages provided by financial institutions as a result of aggregating short term savings from a large number of depositors and lending to actors involved in housing. The limitation of this aggregation is that financial institutions face a mismatch of maturity which increases their risk due to exposure to short term interest fluctuations.

Shelter and Settlements Alternatives Uganda website (accessed 31<sup>st</sup> October 2013), provides the following sources of housing finance in Uganda:

Commercial banks finance which mainly caters for residential property and a few commercial property developments. Financed residential property developments offered by mortgage financing institutions include: (i) house construction, (ii) house completion, (iii) home improvements, (iv) purchasing of houses, (v) equity release and (vi) refinancing mortgage. All loans offered have set repayment periods. Securing loan financing for residential property development is premised on borrowers' income. For those employed in the formal sector (public or private), who wish to secure mortgage loans, employment should be on permanent basis for the period in which one will repay the loan. An individual is also expected to make monthly instalment payments not exceeding 40% of confirmed monthly gross pay.

Secured mortgage loans offered for residential houses range between UGX 10 million and UGX 200 million, though Development Finance Company of Uganda (DFCU) Bank can finance up to UGX 1 billion for home completion. DFCU bank and Housing Finance Bank (HFB) provide mortgage financing up to 80% of the costs required to meet an individual's housing needs and 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 units. However, the outcome from such projects only caters for high income earners who can afford financial requirements especially monthly instalments.

Housing micro-finance that involves a 2 – way approach where individuals can either access cash loans for home improvements or they first get skills on how to build a house and through loaned construction materials, they build their own houses. Through Micro-finance Deposit Taking Institutions (MDIs), Micro-finance Institutions (MFIs), Savings and Credit Cooperative Societies (SACCOs) and other support programs, housing micro-finance is expected to grow considerably due to a combination of significant donor funding and government support.

The Cash Loans Approach which is being employed by Uganda Microfinance Limited (UML) in Uganda to directly offer loans to the housing industry. In addition to home improvement loans they also offer home building loans. All their loans are secured and do not exceed UGX 50 million, payable within 2 years at an interest rate of 36% per month.

Habitat for Humanity Uganda (HFHU) has also been directly issuing 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 UGX 1.4 million, payable within 2 years at an interest rate of 2% per month. In 2007, UGAFODE and HFHU merged to form a fund where UGX 330 million was mobilized to start the “UGAFODE home improvement loans product”. This was in addition to technical assistance offered to members on how to effectively

manage the finances given; designing and constructing low cost houses at UGX 2.5 million. Using the commodity index system, the beneficiaries would pay for these houses in instalments within a 10 year period in a revolving fund.

Non-Conventional Housing Finance – this is mainly through rotating credit societies, saving clubs and Savings and Credit Cooperative Societies (SACCOs) under the Ugandan Government’s program of “Prosperity for All”, where low income earners (who are unable to access the above means of housing finance) have been able to finance small scale businesses and construction of houses. In Uganda, SACCOs have a relatively wide institutional outreach into the rural areas, though they have weak financial positions and their inability to operate strictly on commercial principles further minimizes their chances of sustainability. Since many low income households and individuals cannot provide conventional collateral to ensure compliance with loan repayment responsibilities, SACCOs issue loans on a revolving fund mechanism in which they do group lending. Here the borrower is not only responsible for the repayment of his/her loan, but also for the outstanding loans of other group members.

Personal Financing – also referred to as self-financing through personal savings. This forms a key element in housing finance in Uganda. However, this is faced with several challenges since it takes a long time as savings may not be available for housing but used to meet other pressing needs such as medical and school fees. As a result, investments may be undermined over time as materials bought may waste away, be stolen or construction could be abandoned representing large losses. Personal finance for shelter provision includes: self-financing from personal savings, contributions from family members and remittances; finance

extended from social security sources (i.e. pension, gratuity, medical benefits) and contributions from SACCOs.

Based on the challenges faced by low and medium income groups in developing countries to access and service housing finance from licensed institutions, they tend to build/construct their houses incrementally according to available financial possibilities, opting for relatively small amounts with a maximum of 5 years (Smets, 2005). Housing represents not only the largest non-food household expenditure, but also the most valuable and main capital asset possessed by most low-income households (Datta & Jones, 1999; Ferguson & Haider, 2000). A common belief is that one solution to poor housing is to increase the amount of income available to low-income households. By so doing, it is expected that the means by which the poor are able to build more and better quality housing would be improved (Datta & Jones, 1999). Therefore, understanding the operation of and potential for housing finance is essential as argued by (Datta & Jones, 1999). Okpala (1994) maintains that the availability of formal housing finance systems is indispensable for effectively addressing the quantitative and qualitative housing problems in developing countries (UNCHS, 2002).

## **2.4 Summary**

Based on the overall objective of the research, both local literature and international case studies were reviewed. Issues covered include housing finance in Ugandan context together with literature from the international context. The international case studies reviewed indicated a number of strategies employed by several institutions to improve accessibility of housing finance by the low and

middle income earners. These range from provision of subsidies by governments, use of regulation to facilitate cross-subsidies, bulk construction by housing developers and use of government guarantees. All the above were aimed at evaluating what had been done worldwide to come up with innovative approaches of increasing access to financing for development of affordable and adequate housing for the middle income earners in Uganda.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the procedural framework that guided research in terms of research design, study population, sample size and selection, sampling techniques and procedure, data collection methods and instruments, validity and reliability of research instruments and data analysis.

#### **3.2 Research Design**

A case study design was used. A case study makes an intensive investigation on the complex factors that contribute to the individuality of a social unit and creates an understanding of complex issues that add strength to what is already known through previous research (Amin, 2005). Both quantitative and qualitative approaches were used by the researcher to ably answer the stated research questions.

#### **3.3 Study Population**

Preliminary findings from Bank of Uganda indicated that there are 30 registered and licensed financial institutions in Uganda. For purposes of this study, two commercial banks namely DFCU Bank, Housing Finance Bank (HFB) and two micro-finance deposit taking institutions namely Pride Microfinance Limited and FINCA Uganda Limited were selected. Information obtained from such institutions provided a clear understanding of issues under study and offered a good representation of other financial institutions. The study population as indicated in table 1 consisted of 4 Bank Managers, 4 Directors, 24 Loan Officers

and 81 selected beneficiaries (middle income earners) of the several financial packages for housing development.

### 3.4 Determination of Sample Size

Using Krejcie and Morgan’s Sample Size Estimation Table (1970), a sample size of 113 respondents out of the target population of 162 was selected for interview as indicated in Table 1. Other officials that were interviewed include officials from Ministry of Lands, Housing and Urban Development (MoLHUD), Bank of Uganda and selected practicing consultants in the field of housing.

**Table 1: Distribution of Respondents**

<b>Category of Respondents</b>	<b>Target Population</b>	<b>Sample size</b>	<b>Sampling Technique</b>
Bank Managers	4	4	Purposive
Directors	4	4	Purposive
Loan Officers	38	24	Purposive
Beneficiaries/Customers	116	81	Systematic Sampling
<b>Total</b>	<b>162</b>	<b>113</b>	

*Source: Primary Data, 2014*

### 3.5 Sampling Techniques and Procedure

In determining the sample size, both probability and non-probability sampling methods were used. From the researcher’s perception, purposive sampling was used to identify top management officials such as Bank Managers, Directors together with Loan Officers. The selected respondents were more knowledgeable on the subject matter and a major source of information. The researcher obtained a list of people who had obtained loans from the financial institutions under study for provision of housing facilities. The lists provided among other issues the

monthly gross incomes, which aided the selection of middle income earners. Probable candidates for interview were selected using systematic sampling, where the sampling interval was determined using the formula:

$N/n$ ; where  $N$  is the target population of 116;  $n$  is the sample size of 81. Thus, the sampling interval was determined as follows:  $116/81 = 1.4$  whereby an approximate interval of 2 was considered. This meant that where the first respondent was number 1, the next respondents were number 3, 5, 7, 9 and so forth until all the required 81 respondents were selected.

### **3.6 Data Collection Methods**

The data collection methods that were employed in this study included:

#### **3.6.1 Questionnaire Survey**

A questionnaire is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives (Sekaran, 2003). Questionnaires that were provided to respondents were filled at their convenience, thus increased chances of obtaining valid information. These were administered to loan officers and selected beneficiaries of financial packages for housing development who were in the category of middle income earners.

#### **3.6.2 Interviews**

An Interview is an oral questionnaire where the investigator gathers data through direct verbal interaction with participants (Amin, 2005). Interviews provide in-depth data, are more flexible, yield more information by using probing questions (Mugenda and Mugenda, 1999). These aided the researcher to collect data from

Bank Managers and Directors; Officials from Bank of Uganda, the Ministry of Lands, Housing and Urban Development and private consultants in the field of housing.

### **3.6.3 Documentary review**

This involves acquisition of information through careful study of documents, or visual information (Amin, 2005). Several reports, newspaper articles on affordable housing, interest rates and any other relevant documents were reviewed.

## **3.7 Data Collection Instruments**

The following data collection instruments were used;

### **3.7.1 Interview guide**

This is a set of questions that guided the interviewer during research (see Appendix 2 and 3). An interview schedule makes it possible to obtain data required to meet specific objectives of the study (Mugenda and Mugenda, 1999).

### **3.7.2 Questionnaires**

These are prepared and administered by the researcher assisted by research assistants to addresses study objective, research questions or hypothesis (Mugenda and Mugenda, 1999). In this study both closed ended – where a list of possible alternatives, is provided for respondents to select from and open ended questionnaires where respondents are allowed freedom of expression, were used. They are attached in Appendix 4 of this Thesis.



### 3.7.3 Document review checklist

During the study, a list of relevant documents for review was generated to guide the researcher track progress made, concerning documents reviewed and the remaining ones.

## 3.8 Validity and Reliability

### 3.8.1 Validity

To ensure validity, research instruments were subjected to peer review by fellow participants and later by practicing consultants in the field of housing for critical assessment. They were requested to indicate relevant (R) or not relevant (NR) for each item in the research instrument. The Content Validity Index (CVI) was thus, calculated as follows:

$$\text{CVI} = \frac{\text{Number of items rated relevant}}{\text{Total Number of items}}$$

Results are presented in the following table.

**Table 2: Validity of questionnaire**

Raters	Items rated relevant	Items rated not relevant	Total
Rater 1	23	7	30
Rater 2	25	5	30
Total	48	12	60

*Source: Primary Data, 2014*

Thus, applying the formula  $\text{CVI} = \frac{48}{60} = 0.80$

The CVI was greater than the recommended 0.70 (Amin, 2005). Thus, the questionnaire was valid for data collection.

### 3.8.2 Reliability

Reliability is a measure of the degree to which a research instrument yields consistent results after repeated trials while Validity is the accuracy and meaningfulness of inferences based on research results (Mugenda & Mugenda, 1999). To ensure reliability, the researcher pre-tested questionnaires to ensure correctness and relevancy of the instrument on purposively selected respondents. Findings enabled the researcher to make adjustments where applicable by eliminating or revising ambiguous or difficult questions. The reliability of the instrument was measured using the Cronbach Alpha Coefficient with the help of SPSS. Results are presented in table 3 below.

**Table 3: Reliability of questionnaire**

Variable	Alpha	n
Mortgage financing	.846	7
Housing loans	.733	7
Housing financing	.789	11
Affordable housing	.759	5

*Source: Primary Data, 2014*

The alpha coefficients were above the recommended 0.70 (Amin, 2005). Thus, the questionnaire was suitable for data collection.

### 3.9 Procedure of Data Collection

After approval of the research proposal by the relevant officers, Uganda Management Institute (UMI) issued an introductory letter to the heads of selected financial institutions requesting them to grant permission to the researcher to

access the required documentation. The Managers in turn introduced the researcher to the concerned persons for necessary assistance. The researcher then trained research assistants for three days on how to administer the prepared research instruments including field trials where background to the study, purpose and objectives, study population and data collection methods were covered. Pre-testing of the research instruments was done to assess clarity and ease of use. Items identified as sensitive, confusing or biased in any way were modified or omitted. This paved way for data collection during, which research assistants ensured that all instruments were completed before they were dispatched to data coding and analysis centre.

### **3.10 Data Analysis**

The data was analyzed as follows;

#### **3.10.1 Qualitative data analysis**

Once the themes and categories were identified, the researcher evaluated and analyzed the data to determine adequacy of information and credibility, usefulness, consistency, validation or non-validation of hypothesis. Data was organized into themes to establish trends and relationships from the information being studied and where necessary, direct quotes were used to strengthen the interpretation.

#### **3.10.1 Quantitative data analysis**

Quantitative data was coded and entered for analysis using Statistical Package for Social Scientists (SPSS). Outputs in form of tables, frequencies and percentages

were generated. Spear Man's Rank of Correlation was employed to measure the degree and direction of relationships between two variables while coefficient of determination was employed to establish whether the independent variable predicted a given dependent variable of the study.

### **3.11 Measurement of Variables**

Variables for quantitative data were measured using the 5-point Likert scale where the values of numbers are used to indicate the presence or absence of a characteristic being measured (Mugenda and Mugenda, 1999). Variables for qualitative data were assigned codes or labels that enables the researcher to determine the influence of a characteristic being measured on such a variable.

### **3.12 Ethical Issues**

The researcher ensured that the entire research was guided by the ethical code of conduct. After obtaining approval and a letter of introduction from Uganda Management Institute, the researcher requested for permission from heads of selected financial institutions to carryout research in their premises and explained the purpose of the study. When permission was granted, data collection commenced. The researcher ensured that respondents were informed of the fact that the information being collected was for academic purposes only and would be treated confidential.

## CHAPTER FOUR

### PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.1 Introduction

This chapter presents analyses and interpretation of the results in five major sections. The first section presents response rate while the second section presents respondents' background information. The third section presents results on mortgage financing and affordable housing followed by the fourth section that covers results on housing loans and affordable housing. The fifth section presents results on housing finance and affordable housing.

#### 4.2 Response Rate

The percentage of people who respond to a research study is considered as the response rate. Sufficient response rates are important for research studies. A high response rate helps to ensure that the research results are representative of the study population. In this study, the sample size was 113 respondents but the study managed to get 103 respondents as presented in table 4 below.

**Table 4: Response rate**

<b>Respondents</b>	<b>Sampled size</b>	<b>Responses received</b>	<b>Percentage %</b>
Bank Managers	4	2	50
Directors	4	3	75
Loan Officers	24	17	71
Beneficiaries/Customers	81	81	100
<b>Total</b>	<b>113</b>	<b>103</b>	91

*Source: Primary Data, 2014*

Thus, the total response rate of ninety one percent was above the recommended two-thirds (sixty seven percent) response rate as suggested by Amin (2005). According to Amin (2005), a sixty seven percent response is acceptable. Thus,

with a ninety one percent response rate in this study, the results were considered representative of what would have been obtained from the total population.

### 4.3 Background Findings

Customers of financial institutions were asked about their gender, levels of education, tenure in Kampala Capital City and age as presented in the following sections.

#### 4.3.1 Age of customers of financial institutions

The responses of customers of financial institutions about their age are presented in Table 5.

**Table 5: Distribution of customers of financial institutions by age**

<b>Age</b>	<b>Frequency</b>	<b>Percent</b>
20 – 29 years	35	43.2
30 – 39 years	22	27.2
40 – 49 years	15	18.5
50 years and above	9	11.1
<b>Total</b>	<b>81</b>	<b>100</b>

*Source: Primary Data, 2014*

Findings show that more than fifty percent of customers of financial institutions (56.8%) who participated in the study were aged above 29 years. This implies that the information obtained about mortgage financing, housing loans, housing finance and affordable housing was from respondents who were mature in thinking and reasoning and the information is dependable.

#### 4.3.2 Gender of customers of financial institutions

Customers of financial institutions were asked about their gender. Findings are presented in Table 6.

**Table 6: Distribution of customers of financial institutions by gender**

<b>Gender</b>	<b>Frequency</b>	<b>Percent</b>
Male	34	42.0
Female	47	58.0
Total	81	100.0

*Source: Primary Data, 2014*

Findings show that more female customers of financial institutions (58%) participated in the study compared to the proportion of male customers of financial institutions. This implies that information obtained about mortgage financing, housing loans, housing finance and affordable housing was from a sample that was responsive to gender issues of customers in Kampala Capital City.

#### 4.3.3 Employment status of customers of financial institutions

Customers of financial institutions were asked about their employment status. Findings are presented in Table 7.

**Table 7: Distribution of respondents by employment status**

<b>Employment status</b>	<b>Frequency</b>	<b>Percent</b>
Not employed	5	6.2
Employed	76	93.8
Total	81	100

*Source: Primary Data, 2014*

Findings show that most customers of financial institutions (93.8%) who participated in the study were employed while only 6.2% were not employed. Therefore, the employment status of respondents seems to suggest that they were earning a living from their places of work and thus a possibility that they had transacted business with financial institutions. Hence, more likely to have heard about issues related mortgage financing, housing loans, housing finance and how they have facilitated or inhibited the acquisition of affordable housing. Thus, information obtained was reliable.

#### **4.4 Mortgage Financing and Affordable Housing**

APA style recommends that before testing hypotheses, descriptive statistics for each variable should be presented (Plonsky, 2007). Thus, this approach was adopted in this study and the descriptive statistics used were frequencies and percentages because the scale that accompanied the questionnaire was ordinal.

##### **4.4.1 Descriptive results about mortgage financing**

Customers of financial institutions were requested to indicate their responses on seven statements about mortgage financing using a five-point Likert scale as shown in Table 8. The statements are presented in column 2 of Table 8 while the respondent's views on each statement are presented in columns 3 to 7 as frequencies and percentages. Column 8 presents the total percentage of responses on each statement. The analysis and interpretation of the findings about mortgage financing follows the presentation of findings in Table 8.



**Table 8: Findings about mortgage financing**

S/N	Items about mortgage financing	SD	D	NS	A	SA	Total
1.	I have ever tried to receive or thought of receiving a mortgage to finance housing requirements	11 (14%)	17 (21%)	0 (0%)	37 (45%)	16 (20%)	81 (100%)
2.	It is frustrating for me to access a mortgage to finance housing requirements	4 (5%)	6 (7%)	5 (6%)	34 (42%)	32 (40%)	81 (100%)
3.	There are a lot of procedures before a client can access a mortgage facility to finance housing requirements	5 (6%)	6 (7%)	5 (6%)	40 (50%)	25 (31%)	81 (100%)
4.	The cost of financing a mortgage facility for housing requirements is too high	10 (13%)	23 (28%)	5 (6%)	20 (25%)	23 (28%)	81 (100%)
5.	I have failed to get a mortgage facility to finance housing requirements because I cannot meet the mortgage requirements	6 (7%)	10 (12%)	5 (6%)	36 (45%)	24 (30%)	81 (100%)
6.	I will go back to get a mortgage facility to finance housing requirements	31 (38%)	36 (45%)	5 (6%)	4 (5%)	5 (6%)	81 (100%)
7.	I would recommend a friend/relative to get a mortgage facility to finance housing requirements	26 (32%)	35 (44%)	5 (6%)	5 (6%)	10 (12%)	81 (100%)

Source: Primary Data, 2014

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

To clearly undertake the analysis of the study findings, for each item, strongly disagreed and disagreed were aggregated into one category called “*Customers of financial institutions who disagreed with the statements*” and strongly agreed and agreed were also aggregated into another category called “*Customers of financial institutions who agreed with the statements*”. Thus, three categories of customers of financial institutions were compared, which included “*customers of financial institutions who disagreed with the statements*”; “*Customers of financial institutions who were not sure about the statements*” and “*Customers of financial institutions who agreed with the statements*”. Interpretation was then drawn from the comparisons of the three categories as below.

Findings show that more than fifty percent of customers of financial institutions were in agreement with five statements about mortgage financing (that is 1, 2, 3, 4 and 5) when compared to less than forty two percent of customers of financial institutions who disagreed with the same statements or were not sure about either statement. A comparison of these statements shows that customers of financial institutions who disagreed ranged from 12% to 41% while 53% to 82% of customers of financial institutions were in agreement with the same statements. Customers who were not sure ranged from 0% to 6%.

Thus, the interpretation is that most customers of financial institutions within Kampala Capital City had ever tried to receive or thought of receiving a mortgage facility to finance housing requirements and the process of accessing such a mortgage facility to finance housing requirements was frustrating. Similarly, most customers of financial institutions in Kampala Capital City seemed to agree that there are a lot of procedural requirements one had to fulfil before accessing a mortgage facility to finance affordable housing, in addition to the high cost of financing such a mortgage facility. This is believed to have discouraged many middle income earners in Kampala Capital City from securing mortgage facilities to finance affordable housing.

However, findings further show that more than seventy six percent (76%) of respondents disagreed with two statements about mortgage financing (that is 6 and 7) as compared to less than twenty percent (20%) of customers of financial institutions who agreed with the same statements. An average of six percent of respondents were not sure about either statement. A comparison of these statements reveals that those who disagreed with the two statements ranged from

76% to 83% while 11% to 18% of respondents were in agreement. Only 6% of customers of financial institutions were not sure.

Thus, from this analysis, the interpretation is that most customers of financial institutions seemed not willing to go back for a mortgage facility to finance affordable housing requirements and would not recommend a friend/relative to use a mortgage facility to finance affordable housing.

Generally, the above findings from customers of financial institutions show that more than fifty percent of the respondents found difficulty in accessing mortgage financing. This may be due to the negative attitudes held by customers of financial institutions regarding mortgage financing.

Findings from key informant interviews indicated that the two commercial banks that participated in the study: Housing Finance Bank (HFB) and Development Finance Company of Uganda (DFCU) Bank, offered mortgage products that covered house construction, house completion, home improvement, purchase of complete houses, equity releases and refinancing mortgage. These are offered for up to 20 years with interest rates ranging between 16% and 19%. Upon inquiry on the terms and conditions for accessing such facilities, it was established that securing a mortgage financing for residential property development was premised on the borrowers' income, the borrowers' ability to repay and collateral relative to the value of the loan as shown in the following extracts:

Access to credit is limited to customers who are able and can afford to make significant down payments and are able to pay less than a specific share of their income as monthly repayments at a predetermined percentage. Other

administrative costs involved when applying for a mortgage include arrangement fees, statutory fees, valuation fees, insurance fees, stamp duty, audited books of accounts in case of clients who operate business enterprises and early repayment fees (Bank Manager 1, Key Informant Interview, March 03, 2014).

A standard loan to value ceiling is 70% of the appraised value of the property. This is because the bank prefers to finance individuals who have completed a shell house with complete foundation, walls and roof. A maximum loan to value ratio of 80% for residential units in Kampala and 50% for those in other towns, is offered to our clients. Loans are repaid in equal monthly instalments, with the monthly payment not exceeding 40% of ascertainable monthly income. Loans are available for home construction, house purchase, incremental construction and equity release mortgages. Land loans are also available with a maturity of just 4 years at an interest rate of 20 percent. The property must have a valid title and approved building plans from local authority. The property must be in a well-planned area and the construction must be of permanent materials (Bank Manager 2, Key Informant Interview, March 05, 2014).

Similarly, it was established during these interviews that for those employed in the formal sector (public or private), who wished to secure mortgage facilities, employment must be on permanent terms for the period in which one would repay the loan. An individual was also expected to make monthly instalment payments not exceeding 40% of confirmed monthly gross pay. Interviews also revealed that the two commercial banks offered secured mortgage loans for residential houses ranging from UGX 10 million to UGX 200 million, though DFCU Bank can finance up to UGX 1 billion for home completion. Mortgage financing was given

to cover 80% of the total costs required to meet an individual's housing needs. DFCU and HFB can also finance up to 80% of the total 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 units. However, the outcome from such bigger projects do not meet the housing needs of the middle income earners in Kampala capital City since they are beyond their financial capacity of paying back.

Inquiries on the challenges faced by the financial institutions in administering such mortgage finance facilities for affordable housing development, it was revealed by the two bank managers as summed up in the following extract:

We entered the mortgage industry to retain our customers whom 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 (Bank Manager 3, Key Informant Interview, March 05, 2014).

During the interviews, it was further established that another major challenge to financing affordable housing in Uganda is the lack of long-term funding schemes within the domestic banking system and the nascent capital markets. Though government has channelled funds through NSSF to HFB and DFCU Bank to support mortgage financing industry, lack of long-term funds has stalled the

provision of affordable mortgage finance. This has further limited the supply of affordable housing to Ugandans including the middle income earners.

Other challenges identified in accessing housing finance during interviews with other stakeholders in the housing sector include the fact that borrowing is too risky, the attitudes of the borrowers, and dishonesty by financial institutions of not disclosing all charges and fines out rightly, lack of government support and limited housing finance products on the market.

#### 4.4.2 Descriptive results about affordable housing

Customers of financial institutions were requested to indicate their responses to the five statements about affordable housing on a five-point Likert scale as shown in Table 9. The analysis and interpretation of the findings follows the presentation of findings.

**Table 9: Findings about affordable housing**

S/N	Statement about affordable housing	SD	D	NS	A	SA	Total
1.	I can afford to get adequate building materials	23 (28%)	27 (34%)	5 (6%)	14 (17%)	12 (15%)	81 (100%)
2.	I can afford to meet the cost of building materials	23 (28%)	42 (52%)	5 (6%)	3 (4%)	8 (10%)	81 (100%)
3.	I am able to buy assets for my home	28 (35%)	35 (43%)	5 (6%)	3 (4%)	10 (12%)	81 (100%)
4.	The duration of acquiring an affordable house is too long	8 (10%)	4 (5%)	5 (6%)	47 (58%)	17 (21%)	81 (100%)
5.	Total cost of a complete house is unaffordable	11 (14%)	2 (2%)	5 (6%)	46 (57%)	17 (21%)	81 (100%)

Source: Primary Data, 2014

Key: SD = Strongly Disagree, D = Disagree, NS = Not Sure, A = Agree, SA = Strongly Agree

Findings show that less than twenty percent of the respondents disagreed with statements 4 and 5 about affordable housing when compared to more than seventy seven percent of respondents who agreed with the same statements. A comparison of these statements shows that customers of financial institutions that disagreed ranged from 15% to 16% while 78% to 79% of customers of financial institutions agreed with the statements and 6% of customers of financial institutions were not sure about either statement.

Thus, the interpretation is that most customers of financial institutions in Kampala Capital City seemed to agree that acquisition of an affordable house by the middle income earner was far from reality due to the high cost of a complete house which is beyond their financial capacity in addition to the long-time one has to wait to acquire such a house. This is believed to have contributed to the negative attitudes held by many middle income earners towards the acquisition of affordable housing.

However, findings further reveal that more than sixty percent of respondents in disagreement with statements 1, 2 and 3 about affordable housing when compared to less than sixty percent of respondents who agreed with the same statements. An average of six percentage of respondents was not sure. A comparison of these statements shows that customers of financial institutions that disagreed with the above statements ranged from 62% to 80% while 14% to 32% of customers of financial institutions agreed with the same statements. Thus, from this analysis, the interpretation is that more than sixty percent of customers of financial institutions seemed to agree that they could not afford to meet the cost for building materials and later on buy assets for their home.

Generally, the findings show that most customers of financial institutions found difficulty in acquiring affordable housing partly due to their negative attitudes towards affordable housing.

After establishing views of customers of financial institutions on mortgage financing and affordable housing, the next stage was determine whether mortgage financing had any effect on the acquisition of affordable housing by the middle income earners in Kampala Capital City.

#### 4.4.3 Testing first hypothesis

The first hypothesis stated, “*Mortgage financing plays an important role towards affordable housing by the middle income earners in Kampala Capital City*”. The Spearman Rank Order Correlation Coefficient (*rho*) was used to determine the strength of the relationship between mortgage financing and affordable housing. The coefficient of determination was used to determine the effect of mortgage financing on affordable housing. The significance of the coefficient (*p*) was used to test the hypothesis by comparing the coefficient to the critical significance level at 0.05. This procedure was applied in testing the other hypotheses. Table 10 presents the test results for the first hypothesis.

**Table 10: Correlation between mortgage financing and affordable housing**

Dependent variable	Independent variable Mortgage financing
Affordable housing	$rho = .312$ $rho^2 = .097$ $p = .005$ $n = 81$

Source: Primary Data, 2014



Findings show that there was a weak positive correlation ( $rho = .312$ ) between mortgage financing and affordable housing. Since the correlation does imply causal-effect as stated in the first objective, the coefficient of determination, which is a square of the correlation coefficient ( $rho^2 = .097$ ), was computed and expressed as a percentage to determine the change in affordable housing due to mortgage financing. Thus, findings show that mortgage financing accounted for 9.7% change towards affordable housing in Kampala Capital City. These findings were subjected to a test of significance ( $p$ ) and it is shown that the significance of the correlation ( $p = .005$ ) is less than the recommended critical significance at 0.05. Thus, the effect was significant. Because of this, the hypothesis “*Mortgage financing plays an important role towards affordable housing by the middle income earners in Kampala Capital City*” was accepted.

The implication of these findings is that the weak effect seemed to suggest that a positive change in mortgage financing contributed to a small positive change towards affordable housing. The positive nature of the effect implied that the change in mortgage financing and affordable housing was in the same direction whereby ease in accessing mortgage financing facilitated the acquisition of affordable housing by the middle income earners in Kampala Capital City and the reverse was true.

#### **4.5 Housing Loans and Affordable Housing**

Before testing the second hypothesis, descriptive results relating to housing loans were presented, analyzed and interpreted as follows.

#### 4.5.1 Descriptive results about housing loans

Customers of financial institutions were presented with seven statements concerning housing loans and they were required to indicate their views on a five-point Likert scale as shown in Table 11.

**Table 11: Findings about housing loans**

S/N	Items about housing loans	SD	D	NS	A	SA	Total
1.	I have an account for accessing a housing loan to finance housing requirements	36 (45%)	31 (38%)	0 (0%)	4 (5%)	10 (12%)	81 (100%)
2.	I can access the amount of housing loan I want	26 (32%)	35 (44%)	5 (6%)	9 (11%)	6 (7%)	81 (100%)
3.	I find difficulties in accessing a housing loan to finance housing requirements	4 (5%)	7 (9%)	5 (6%)	23 (28%)	42 (52%)	81 (100%)
4.	The procedure for getting a housing loan is frustrating to finance housing requirements	4 (5%)	6 (7%)	5 (6%)	26 (32%)	40 (50%)	81 (100%)
5.	The interest rate for a housing loan to finance housing requirements is affordable	31 (39%)	26 (32%)	5 (6%)	14 (17%)	5 (6%)	81 (100%)
6.	I will go back to get a housing loan to finance housing requirements	30 (37%)	29 (36%)	5 (6%)	13 (16%)	4 (5%)	81 (100%)
7.	I would recommend a friend/ relative to get a housing loan to finance housing requirements	33 (41%)	28 (34%)	5 (6%)	12 (15%)	3 (4%)	81 (100%)

Source: Primary Data, 2014

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Findings show that more than eighty percent of customers of financial institutions were in agreement with statements 3 and 4 about housing loans as compared to less than twenty percent of customers of financial institutions who disagreed with the same statements. A comparison of these statements shows that 12% to 14% of respondents disagreed with the two statements while 80% to 82% of respondents

were in agreement with the same statements. Only 6% of customers of financial institutions, were not sure on either statement. Thus, the interpretation is that most customers of financial institutions seemed to agree that the difficulties met while trying to access housing loans to finance affordable housing in addition to procedural requirements for acquiring such housing loans were a discouragement to the middle income earners' efforts of acquiring affordable housing.

On the other hand, more than seventy percent of respondents did not agree with five statements about housing loans namely 1, 2, 5, 6 and 7 when compared to less than twenty five percent of respondents who agreed with the same statements. A comparison of these statements shows that 71% to 83% of respondents disagreed with the statements while 17% to 23% of respondents were in agreement with the same statements. Only 6% of the respondents were not sure on either statement.

Thus, the interpretation is that most customers of financial institutions seemed to agree that having an account in a particular financial institution was a requirement for one to access housing loans. This was further complicated by the interest rates charged on such housing loans which prohibited many customers from accessing any amount of money they required to finance affordable housing in Kampala Capital City. Similarly, they seemed not willing to go back to financial institutions for a housing loan and would neither recommend a friend nor a relative to apply for a housing loan to finance affordable housing.

These findings seem to suggest that most middle income earners have failed to secure financing for affordable housing from their financial institutions, partly due to procedural requirements like having an account with such financial institution,

high interest rates, and proof of regular income in addition to the nature of employment which must be on permanent basis for the period of paying the loan. This may be the reason behind the increasing slum developments within Kampala Capital City.

Interviews with key informants provided more information on housing loans. The interviews with the two bank managers on the interventions such financial institutions had put in place to alleviate such challenges and ably serve the middle and low income earners, HFB launched the Growing House Product in August 2007. This initiative has allowed a substantial number of individuals in Kampala to build incrementally. HFB also mobilized funding from capital markets and other financial institutions to expand its loanable funds. DFCU Bank teamed up with Jomayi Property Consultants Limited, a real estate developer, to fund the construction of low cost houses.

Similarly, managers of micro-finance institutions revealed that they have been providing loans that indirectly facilitated home improvements. However, the main constraint on further growth of this product range, is the Bank of Uganda's restriction on the term of lending by these institutions which should not exceed five calendar years.

Findings further revealed that the requirement by such financial institutions for depositing collateral as security for housing loans was something of concern to the property developers. The person obtaining a loan is required to first obtain a land title in his/her names. The process of obtaining a land title was identified as

cumbersome and complicated by both managers of financial institutions and property developers. The land registry is in a deplorable state due to understaffing, being entirely paper based, susceptible to fraud and corruption. This makes most of the titles obtained unreliable as collateral for such housing loans. The collateral requirement was also complicated by the land tenure system that includes freehold, Mailo, customary and leasehold land tenure systems as shown in the following extract:

The land tenure systems limits accessibility to housing loans. Freehold and leasehold land tenure systems are straight forward and may not present major issues in accessing housing loans. However, Mailo and customary land tenure systems present complex situations for owners intending to access housing finance. Because most of Mailo land pieces are huge, they are occupied by many non-owners (tenants) either legally with the consent of the owner or illegally through land invasion. This was further complicated by the 1995 Constitution of the Republic of Uganda, which provided for legal rights for such illegal occupants on Mailo land and termed them as “Bonafide Occupants”. This creates a dilemma for financial institutions when a client is to construct a house on Mailo land since there is an impression of the Mailo land owner and the tenant being co-owners of the same piece of land. Obtaining a land title by the owner for Mailo land may not be complicated but financial institutions may be reluctant to use it as collateral mainly because there might be other tenants on such land. The proposed Land Amendment Bill makes foreclosure on such collateral almost impossible if there are tenants. On the other hand, for a tenant on Mailo land to obtain a land title, he/she has to seek the approval of the land owner at a fee. The complication for such a tenant to obtain a land title is from the fact that the land has to be surveyed

afresh and indirectly, the land title for the Mailo land owner has to be changed as well to accommodate the piece taken out by the former tenant (Micro-Finance Institution Manager 1, Key Informant Interviews, March 04, 2014).

Similarly, customary land tenure system presents the following complications regarding access to housing loans from financial institutions:

Families or individuals may own a defined chunk of land and may freely pass it on to anyone of their choice. However, for a land title to be issued on this land and used as collateral, it has to be converted into either freehold or leasehold land tenure system. Given the fact that this land is communally owned, it is quite a challenge to obtain consent from the whole community to convert the land tenure system for one's portion to be removed and hence obtain a land title to access housing loans (Stakeholder in housing, Key Informant Interview, March 04, 2014).

Other reasons given for the continuous failure by middle income earners to access housing loans include their monthly incomes that could only afford them a smaller amount of loan from other sources than they would have obtained from financial institutions; the level of house construction that had reached a level where financial institutions could not provide them with housing finance; the big indebtedness by respondents hence not willing to add on other debts; no or little information about the available housing finance products on offer that caters for the respondents needs; lack of necessity for such loans and the expensive nature of loans, thus beyond their financial capacity to pay back.

After establishing the views of customers of financial institutions towards housing loans, the next step was to determine whether housing loans had any effect on the acquisition of affordable housing by the middle income earners in Kampala Capital City.

#### 4.5.2 Testing second hypothesis

The second hypothesis states, “*Housing loans have not facilitated the acquisition of affordable housing by the middle income earners in Kampala Capital City*”. Spearman rank order correlation coefficient ( $\rho$ ) was used to test the hypothesis as in Table 12.

**Table 12: Correlation between housing loans and affordable housing**

Dependent variable	Independent variable Housing loans
affordable housing	$\rho = .472$ $\rho^2 = .223$ $p = .000$ $n = 81$

Source: Primary Data, 2014

Findings show that there was a moderate positive correlation ( $\rho = .472$ ) between housing loans and affordable housing. The coefficient of determination ( $\rho^2 = .223$ ) shows that housing loans accounted for 22.3% change towards affordable housing. These findings were subjected to a test of significance ( $p$ ) and it is shown that the significance of the correlation ( $p = .000$ ) is less than the recommended critical significance at 0.05. Thus, the hypothesis: “*Housing loans have not facilitated the acquisition of affordable housing by the middle income earners in Kampala Capital City*” was rejected.

Thus, the moderate effect seems to suggest that minimal improvements in housing loans contributed to moderate changes in the acquisition of affordable housing. The positive nature of the effect implies that any positive modifications aimed at improving access to housing loans by the middle income earners would have a considerable positive impact on acquisition of affordable housing by the middle income earners while any difficulty in access to housing loans by the same group would contribute negatively to the acquisition of affordable housing.

#### **4.6 Housing Finance and Affordable Housing**

Before testing the third hypothesis, descriptive results relating to housing finance were analysed and interpreted as follows:

##### **4.6.1 Descriptive results about housing finance**

Customers of financial institutions were requested to respond to eleven statements on housing finance by indicating their views on a five-point Likert scale as shown in Table 13.



**Table 13: Findings on housing finance**

S/N	Statements on housing finance	SD	D	NS	A	SA	Total
1.	A rotating savings system has helped me to finance housing requirements	26 (32%)	35 (43%)	0 (0%)	16 (20%)	4 (5%)	81 (100%)
2.	The process of getting help from the rotating savings system to finance affordable housing is frustrating	5 (6%)	15 (19%)	5 (6%)	23 (28%)	33 (41%)	81 (100%)
3.	I would recommend a friend/relative to a rotating savings system to finance affordable housing	18 (23%)	39 (48%)	5 (6%)	14 (17%)	5 (6%)	81 (100%)
4.	A credit association has helped me to finance affordable housing	27 (33%)	41 (51%)	0 (0%)	8 (10%)	5 (6%)	81 (100%)
5.	The process of getting help from the credit association to finance affordable housing is frustrating	3 (4%)	16 (20%)	5 (6%)	28 (35%)	29 (35%)	81 (100%)
6.	I would recommend a friend/relative to a credit association to finance affordable housing	26 (32%)	37 (46%)	5 (6%)	11 (14%)	2 (2%)	81 (100%)
7.	A public finance organization helped me to finance affordable housing	22 (27%)	40 (50%)	0 (0%)	10 (12%)	9 (11%)	81 (100%)
8.	The process of getting help from the public finance organization to finance affordable housing is frustrating	4 (5%)	9 (11%)	5 (6%)	43 (53%)	20 (25%)	81 (100%)
9.	I have a person saving account to finance affordable housing	20 (25%)	42 (52%)	0 (0%)	14 (17%)	5 (6%)	81 (100%)
10.	I would recommend a friend/relative to open a person saving account to finance affordable housing	24 (30%)	31 (38%)	5 (6%)	18 (22%)	3 (4%)	81 (100%)
11.	The process of getting help from my personal saving account to finance affordable housing is frustrating	3 (4%)	15 (19%)	5 (6%)	35 (43%)	23 (28%)	81 (100%)

Source: Primary Data, 2014

Key: SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree

Findings show that more than seventy percent of customers of financial institutions were in agreement with four statements about housing finance (that is 2, 5, 8 and 11) when compared to less than twenty five percent who disagreed with the same statements. A comparison of responses on these statements shows that 69% to 78% of respondents agreed with the above statements while 16% to 25% of respondents disagreed with the same statements. Only 6% of respondents were not sure on either

statement. Thus, the interpretation is that most customers of financial institutions seemed to agree that the processes of obtaining help from the rotating savings schemes, credit associations, public finance organizations and their personal saving accounts to finance affordable housing were frustrating.

Similarly, more than sixty eight percent of the customers of financial institutions disagreed with seven statements about housing finance (that is 1, 3, 4, 6, 7, 9 and 10) as compared to less than twenty six percent who agreed with the same statements. A comparison of responses on the seven statements shows that 68% to 84% of respondents disagreed with the above statements while 16% to 26% of respondents were in agreement with the same statements. Thus, the interpretation is that most customers of financial institutions seemed to agree that rotating savings schemes, credit associations, public finance organizations and personal savings accounts have not helped them acquire affordable housing. They further indicate that they would not recommend a friend or relative to rely on rotating savings schemes, credit associations, public finance organizations and personal savings accounts as the only sources of financing affordable housing requirements in Kampala Capital City.

These findings generally show that difficulties experienced by most customers of financial institutions in accessing housing finance have deterred their efforts in acquisition of affordable housing. This implies that the escalating housing deficit and the ever increasing number of slum dwellers will cripple Government of Uganda's efforts in achieving the Millennium Development Goal No. 7 of *"improving the lives of at least 100 million slum dwellers by 2020"*.

On facilities that financial institutions have on offer to facilitate the acquisition of affordable housing by the middle income earners, two bank managers informed the researcher that construction finance is now available. However, validation of such information from other stakeholders in the housing sector revealed that they do not provide construction finance per say, but provided funds to people who have partially finished structures. The finance provided aides in the completion of the shelter with repayment expected over an extended period.

Additionally, equity release was also offered by some financial institutions where a home owner was provided with an amount equivalent to a specific percentage of the value of the house in return for the house being used as collateral. She/he then pays the agreed amount in monthly instalments for the agreed upon period.

Interviews with other stakeholders in the housing sector revealed that middle and low income earners had varying impediments in their quest to access housing finance as follows:

**Affordability:** This featured prominently as a limiting factor in accessing housing finance. The affordability factor took on different forms including the inability to access housing finance due to the high interest rates charged by the financial institution, the heavy burden of monthly instalment payments and the increase of the initial amount that financial institutions require for one to obtain housing finance. From interviews with managers of financial institutions, the current interest rates on housing products ranged from 16% to 23% per annum depending on the financial institution providing housing finance.

Housing plan approval: Obtaining approval of the house plan from the relevant authorities was also highlighted as a major setback due to understaffing of the relevant offices and lack of clear guidelines on what is required to obtain a house plan approval. The lengthy process has resulted into the emergence of intermediaries who claim to assist any willing person to secure plan approvals by the local authorities. This exposes the intending borrower to increased risks related to fraud, corruption and delays in plan approval which also delays acquisition of housing finance for affordable housing and increases the cost of servicing the loan.

Complex loan approval processes: These pose challenges in accessing housing finance especially for the middle income earners. The financial institutions approval process for housing finance is so complex and elaborate which breeds frustration on those seeking to acquire housing finance. Among the several requirements by financial institutions regarded as complicated by the respondents include presenting one's monthly salary pay slips for a period of six (6) months to three (3) years for some products depending on the financial institution, copies of bank statements from your financial institutions when different from the bank offering housing finance and getting a letter of reference from one's employer. In line with the complex loan approval process, it was also indicated that there was scanty information concerning the various housing loan products that financial institutions offer.

The study findings on what should be done to improve access to housing finance for affordable housing by middle income earners yielded the following varying suggestions from the key informants:

Reduction of interest rates: Interestingly, two of the four managers of the financial institutions that were interviewed agreed with the fact that interest rates were quite high especially when compared to those in neighbouring East African countries and should be reviewed downwards. Much as the other two managers also agreed that the interest rates were higher than neighbouring East African countries, they were in support of the high interest rates citing the fact that the conditions differ and so the risk exposure to the financial institutions is totally incomparable.

Avail information to the public on housing finance products on market: Findings seemed to suggest that respondents knew little if not nothing about housing finance products on the market. Thus, the recommendation that such products be published either in daily newspapers or provided to the public in form of flyers and brochures for all to read. They further recommend the translation of such information into several local languages such that even the illiterate can be made aware of such offers.

Streamline the banks' housing finance approval process: Respondents felt that the approval process for housing finance products looks straight forward and simple in theory or on paper with some banks promising approval within 48 hours, but in reality, the process may take months before an approval or rejection is communicated to the loan applicant.

Create various housing finance products: Other stakeholders commented on the available housing finance products on market as too few and only designed to cater

for the high income earners. They therefore, recommend that financial institutions should develop other housing finance products that specifically target the low and middle income earners who make up the majority of the population in the country. This is expected to considerably address the inadequacy of affordable housing in Uganda.

Use future values for collateral and not market value: The use of market value during property valuation as collateral was cited by respondents as misleading due to scarcity of information on market values. They thus, recommend the use of future values when valuing properties for collateral. This will enable applicants to afford reasonable loan amounts for housing developments.

Other proposals include the need for government's intervention in the land market as well as fast tracking the process of streamlining the land registry from paper to computer based, creation of active partnerships between employers and financial institutions and modifications to the house plans approval processes by local authorities.

After establishing views of customers of financial institutions on housing finance, the next stage was to determine whether housing finance had any impact in facilitating the acquisition of affordable housing by middle income earners. Findings are presented in the following sub section.

#### **4.6.2 Testing third hypothesis**

The third hypothesis stated: *“Housing finance has had a significant impact in facilitating the acquisition of affordable housing by the middle income earners in*

*Kampala Capital City*". Spearman Rank Order Correlation Coefficient ( $\rho$ ) was used to test the hypothesis. Table 14 presents the test results.

**Table 144: Correlation between housing finance and affordable housing**

Dependent variable	Independent variable Housing finance
affordable housing	$\rho = .345$ $\rho^2 = .119$ $p = .002$ $n = 81$

Source: Primary Data, 2014

Findings seems to suggest a weak positive correlation ( $\rho = .345$ ) between housing finance and affordable housing. The coefficient of determination ( $\rho^2 = .119$ ) shows that housing finance contributed to 11.9% change towards affordable housing. These findings were subjected to a test of significance ( $p$ ) and results indicate that the significance of the correlation ( $p = .002$ ) is less than the recommended critical significance at 0.05. Thus, the effect was significant. Because of this, the hypothesis: "*Housing finance has had a significant impact in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City*" was accepted.

The implication of the findings is that housing finance has made a contribution in facilitating the acquisition of affordable housing by the middle income earners in Kampala Capital City exemplified by the positive nature of the correlation between housing finance and affordable housing. Therefore, any positive changes by the financial institutions aimed at facilitating middle income earners to access housing finance would positively improve the acquisition of affordable housing by

the target group in Kampala Capital City. However, any difficulties in access to housing finance by the middle income earners would negatively affect the acquisition of affordable housing within Kampala Capital City. This further contributes to the escalating number of slum dwellers and offers no assistance to the middle income earners in their quest of acquiring affordable accommodation and reduce on the housing deficit in Uganda including Kampala Capital City. This is believed to have forced middle income earners to look for affordable accommodation for rent, available in the city's informal settlements. This further complicates the Government of Uganda's commitment under the Millennium Development Goals of having improved the lives of at least 100 million slum dwellers by 2020.



## CHAPTER FIVE

### SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents summary of findings, discussion, conclusions and recommendations. Thus, divided into four major sections: summary of findings; discussion of findings according to objectives of the study; conclusions and recommendations.

#### 5.2 Summary of Findings

##### 5.2.1 Mortgage Financing and Affordable Housing

Findings revealed a weak positive effect ( $\rho = .312$ ) of mortgage financing to affordable housing. This seemed to imply that ease in access to mortgage finance by the middle income earners would facilitate the acquisition of affordable housing by middle income earners and the reverse is true. Mortgage financing contributed 9.7% change in facilitating the middle income earners to acquire affordable housing. It was further, established in this study that most respondents had ever tried to obtain or thought of acquiring a mortgage facility to finance housing and the process was frustrating.

Furthermore, the procedural requirements to access a mortgage facility to finance affordable housing in addition to the cost of financing such a facility was beyond the reach of many middle income earners in Kampala Capital City. These seem to have scared off many customers of financial institutions from acquiring mortgages to finance affordable housing. This is further, believed to have contributed significantly to the increasing number of people living in the slums of Kampala Capital City during the period under study that is 2007 – 2012. This could have

been due to the failure by the middle income earners in accessing mortgage financing to construct or purchase affordable houses for themselves. Thus, resort to renting the available accommodation in informal settlements of Kampala Capital City.

More so, respondents revealed that, they would not go back for a mortgage facility from financial institutions or recommend a friend/relative to obtain mortgage finance for affordable housing. This could be due to the difficulties experienced by the middle income earners in in the bid to access mortgage financing for affordable housing. This further complicates the available opportunities by middle income earners to acquire affordable housing since the duration of acquiring an affordable house is too long and the total cost of complete house is beyond the capacity of many middle income earners. Study findings further revealed that, they could not afford the cost of building materials and later on buy assets for their homes after making the required monthly instalments.

The implication is that if no alternative financing options are organised by the responsible institutions to facilitate the acquisition of affordable housing by the middle income earners, then the housing deficit in Uganda and Kampala Capital City in particular will worsen. This will signify failure by the government of Uganda in fulfilling her commitment in attaining the MDGs especially Goal No. 7 of improving the lives of at least 100 million slum dwellers by 2020.

### **5.2.2 Housing Loans and Affordable Housing**

Study findings revealed a moderate positive effect ( $\rho = .472$ ) of housing loans to affordable housing. Any positive improvement aimed at facilitating the middle income earners to access housing loans would positively contribute to the

acquisition of affordable housing by the target group and the reverse is also true. Housing loans accounted for 22.3% change in affordable housing for the middle income earners. Study findings further revealed that difficulties experienced by the middle income earners in their quest to access housing loans to finance affordable housing and the procedural requirements for acquiring such housing loans, were frustrating. In addition, having an account in the respective bank, was a must for one to access housing loans. Even those who had accounts in the respective financial institutions, could not access the amount of money they wanted due to high interest rates. This made housing loans beyond the reach of majority middle income earners in Kampala Capital City.

Findings further revealed that most respondents were not willing to go back for a housing loan and would not recommend a friend/relative for a housing loan to finance affordable housing. This could be attributed to the difficulties experienced by the middle income earners in their quest to access housing loans – a factor that reduces the number of middle income earners who would acquire affordable housing.

### **5.2.3 Housing Finance and Affordable Housing**

Findings revealed a weak positive effect ( $\rho = .345$ ) of housing finance towards affordable housing whereby ease in access to housing finance is related to ease in the acquisition of affordable housing by the middle income earners in Kampala Capital City and the reverse is also true. Housing finance accounted for 11.9% change in affordable housing.

Research findings further revealed that the processes of obtaining help from rotating savings schemes, credit associations, public finance organizations and

personal savings accounts to finance affordable housing were frustrating. This could have been due to the fact that they have not been instrumental in facilitating middle income earners to finance the acquisition of affordable housing. Thus, unable to recommend a friend and or a relative to such options to finance affordable housing. The difficulties experienced in accessing housing finance, could partly explain why most middle income earners were reluctant to apply for more facilitation under housing finance for affordable housing.

### **5.3 Discussion**

#### **5.3.1 Mortgage Financing and Affordable Housing**

Access to mortgage finance is limited as portrayed by the findings that few respondents were able to access mortgage facilities through financial institutions. This could partly be due to the procedural requirements one has to fulfil to access a mortgage facility to finance affordable housing in addition to the high cost of financing such a mortgage. This concurs with Thorsten & Hesse (2009) who emphasized that transaction costs are higher when lending to the poor as more time is needed by the bank to invest in a client. The bank has to manage repayments of customers, instead of relying on customers to pay on time. Often field agents collect payments from customer's homes. This contributes to a high lending cost for the bank and this makes financing the poor less attractive to the formal banking sector. In addition, most people failed to get a mortgage to finance affordable housing because they could not meet the mortgage requirements. Lastly, most people seemed to agree that they would not go back for a mortgage to finance affordable housing and they would not recommend a friend/relative for such a mortgage to finance housing requirements.

The range of mortgage products varied from one institution to the other. Financial institutions that participated in this study typically offered mortgage products for up to 20 years to maturity and at variable rates. In Uganda, lending rates are often very high making loans unaffordable for the vast majority of people and impossible for the low and middle income group (Mugambe, 2009). A standard loan-to-value ceiling was seventy percent of the appraised value of the property. Interest rates were still relatively high at between sixteen and nineteen percent. Loans were repaid in equal monthly instalments, with the monthly payment not exceeding forty percent of the ascertainable monthly income. Mortgages were available for house construction, purchase, incremental construction and equity releases. Land loans were also available with a maturity of just 4 years at an interest rate of twenty percent.

There were legal and regulatory constraints in accessing mortgage financing such as the Mortgage Bill that was passed in March 2009 became an Act in October 2009 (World Bank, 2009). Effective legal and judicial systems are essential for any financial system. The willingness of lenders to make loans available will increase, if the lenders trust the system to enforce contracts and law in general. A large proportion of land in Uganda is customary, which can be owned either communally or individually (Mugambe, 2009). The Act differentiated between land ownership types, allowing mortgages on all land tenure systems. However, the procedural requirements for customary land owners makes it rather difficult for one to access mortgage financing.

Difficulties in assessing credit risk limits people's ability to access mortgage financing. The obstacle to people's reluctance in accessing mortgage financing is the difficulty in accessing reliable information. Other concerns include the lack of a civil registry, which makes it difficult to assess civil status of potential borrowers (World Bank, 2009).

In Uganda, loans must be repaid in a very short time period (Mugambe, 2009). This makes it impossible for most low and middle income earners to generate enough income to meet the repayment requirements. This is mostly due to high risks for the mortgage finance sector in Uganda such as the economic instability, fluctuations in inflation and foreign exchange rates.

### **5.3.2 Housing Loans and Affordable Housing**

The available housing finance products are few and mainly limited to the high and middle income category of clients. Products for the low income earners are few and where they are, they are expensive. At the same time for those who apply, few actually get the loans that they apply for. Micro-finance institutions have also been expanding their product ranges into housing with products such as small loans targeting incremental home construction. Under this facility, there is no need for collateral. In Uganda, often high collateral is required for loans (Mugambe, 2009). Sometimes a collateral of double or triple the value of the loan is asked. This makes it impossible for low and middle income earners to meet the requirements needed for a loan, as these groups often do not have enough collateral. The main constraint on further growth of this product range is the Bank

of Uganda's restriction that the term of lending by these institutions could not exceed five years.

Findings further, revealed that the requirement for depositing collateral as security for housing loans is something of concern to other stakeholders in housing. This in theory should not be a major stumbling block since it is the same piece of land where the house is to be constructed. However, in practice, this is rather a complicated issue since it requires obtaining a land title in the names of the loan applicant. The process of obtaining the land title was identified as cumbersome and complicated by respondents. Information from the study findings and literature review (Giddings S.W., 2009) shows that the land registration system is in a sorry state due to understaffing, being entirely paper based and susceptible to fraud, corruption and unreliable land titles. The collateral requirement was also complicated by the land tenure systems that include freehold, Mailo, customary and lease hold land tenure systems.

Slow property registration process has created difficulties for people intending to access housing loans due to administrative bureaucracy and information constraints. The ability to use real estate in form of land or buildings as collateral promotes affordable housing (World Bank, 2009). It allows borrowers to leverage one of their few assets, while banks are able to lend with greater confidence in an environment where credit information is lacking and credit risk high. However, findings of this study showed that accessing housing loans for affordable housing was limited due to the slow property registration process. A fundamental impediment to the registration process is the delay caused by the lack of capacity

for evaluation (Mugambe, 2009). At present every property transaction has to be independently valued by the Chief Government Valuer's Office for purposes of levying stamp duty. Lack of technical capacity in the same office means that this process can be extremely slow. Some of the capacity issues arise from a shortfall in trained surveyors, which is not helped by the lack of a training course in Uganda for this profession (Thorsten & Hesse, 2009).

One of the issues that this study established as an obstacle to accessing housing loans was unreliable property registration especially the authenticity of the land titles. The title may prove incorrect either because of errors in the search and registration processes or because of fraud. The high incidence of invalid titles taints every title to some degree, even valid ones. From a bank's perspective, the value of the collateral has to be discounted to allow for the possibility of fraud or extra expenses to be incurred either by the bank or the borrower to perfect the title (World Bank, 2009).

### **5.3.3 Housing Finance and Affordable Housing**

Access to housing finance is still low even among those who in theory pass the most important parameter (reasonable regular monthly income) required to access the product. A substantial proportion of the people who would otherwise qualify to obtain housing finance have never even tried to apply for housing finance. They instead use personal savings, borrow from their employers or take out personal salary loans from the financial institutions to construct houses.



There were several constraints that in combination prevent financial institutions from making the necessary level of returns on extending housing finance for affordable housing. The obstacles were visible at every stage of the lending process, and affect obtaining collateral, the registration process, obtaining long-term funding, assessing credit risk, and the foreclosure process. The study further revealed that high interest rates, unfavourable housing finance products, limited information on the available housing products, complex loan approval process, the complexity of obtaining both a land title and a building plan approval are the major obstacles in obtaining housing finance by the target population. Findings of this study reveals that affordability is the major factor that is adversely affecting access to housing finance followed by having few housing products on the market.

Thus, a number of limitations exist in the currently available lines of financial institutions, which make it difficult to finance affordable housing. Since housing finance is typically slightly larger and longer term, this creates the potential for asset/liability mismatch since wholesale funding terms are often shorter than the terms of a housing loan (Thorsten & Hesse, 2009). Additionally, these longer term larger loans may put a strain on a financial institutions' liquidity, which worries growing financial institutions, especially when capital adequacy ratios are already strained as a result of growth in the overall portfolio and access to debt is limited by the recent credit crunch and recession (Thorsten & Hesse, 2009).

Basically, the formal financial sector is unable and unwilling to serve the low and middle income groups (Thorsten & Hesse, 2009). The several reasons why this is the case include people accessing housing finance are required to have bank

accounts with minimum deposits, they are often charged higher fees, often they do not have formal legal titles to provide collateral security as required by formal financial institutions, they do not have the capacity to make monthly repayment for a long period of time and they do not often have a formal employment.

Credit is not granted unless the financial institution is certain that the borrower can pay its debt for the entire period of repayment. An important point in conducting the credit activity is a thorough analysis of the financial situation of the loan applicant (Giddings, 2009). Often this is found to be humiliating by the people accessing housing finance and scares them away as they do not have a stable income or a regular employment.

## **5.4 Conclusions**

This section presents the conclusions based on the study findings and discussion according to the study objectives.

### **5.4.1 Mortgage Financing and Affordable Housing**

This study findings show that mortgage financing plays an important role in promoting affordable housing. The positive nature of the relationship between mortgage financing and affordable housing is proof to this effect, because when access is limited to mortgage financing, access to affordable housing is also limited.

#### **5.4.2 Housing Loans and Affordable Housing**

The need for housing loans arises because they make great sense from a long-term savings perspective. Not only are housing loans a handy tool for people to own a roof over their heads, but they also help save money in the long run. Despite these benefits, people find difficulty in accessing housing loans and as such they do not benefit from such services that financial institutions in Uganda offer.

#### **5.4.3 Housing Finance and Affordable Housing**

The major road blocks towards access to housing finance revealed by the study include the high interest rates charged by financial institutions; the difficulties of having a valuable collateral according to the financial institutions' valuations and the complex bank approval process. These have forced clients to apply for loans with less complex approval processes such as salary loans. In addition, the process of obtaining a land title from the fraud prone Land Registry Department and securing approved house plans from the local authority (Kampala Capital City Authority) without any visible clear guidelines as well as the scanty information on the housing finance products available on the market have also limited access to housing finance.

#### **5.5 Recommendations**

In this section, the recommendations are based on fieldwork findings and the discussion including existing literature. The recommendations are presented according to study objectives.

### **5.5.1 Mortgage Financing and Affordable Housing**

Due to problems associated with land registry, there is need for introduction of title insurance as a mandatory requirement to safeguard both the mortgagors and the financial institutions. This is likely to improve on access to mortgage finance due to lowering of the risk attached to the current possibility of falsified land titles.

The Mortgage indemnity fund similar to the one which existed in South Africa may help to grow the housing finance market in Uganda. When such a fund is set up to provide additional guarantee to financial institutions, access to mortgage finance will improve as financial institutions will be comfortable providing additional finance with a lower risk of default. The fund should act as a second line of guarantee to the financial institutions that provide housing finance. This will encourage financial institutions to provide more mortgage finance as the concept takes root in the country.

The government can address the high interest rates or high cost of obtaining housing finance in a number of ways including measures to lower the prices of houses such as intervening in the unit cost of building materials through the tax system and reducing the Bank of Uganda's lending rates. It can also be increased through offering longer terms for the mortgage.

Mortgage is a legal right by which a debtor pledges his residence or property to secure his obligation to the creditor that provides the loan to construct or acquire it. This should still be true in practice as it sounds in theory. Any delays or legal

technicalities, which prolong or impede the execution of this agreement discourage creditors from more loans and results into high costs for those who succeed in obtaining loans due to increased risks. The Mortgage Act, 2009 makes it very difficult to achieve, since financial institutions cannot take possession of their clients' houses in case of default. This negatively affects access to mortgage finance. The regulating entity should urgently address this issue.

### **5.5.2 Housing Loans and Affordable Housing**

Financial institutions should introduce contractual savings for their clients to easily access housing loans. These schemes should vary depending on the absolute amount that the client is interested in. These contractual saving schemes have benefits including being one source of funds on the side of the financial institution for further roll out and introducing the client to the habit of saving since she/he will be required to service the housing loan.

Since salary earners contribute to National Social Security Fund, there is need to amend the law for the pension fund to allow members to use their pension contributions as collateral to access housing loans. Furthermore, the pension fund itself can take an active role in the provision of housing loans just as it is in the Netherlands where pension funds are some of the key players in the housing finance market.

The government can lower interest rates on housing loans through increased competition and hence better efficiency. The lowering of interest rates and

enabling longer loan terms can be achieved through mobilization of long term funding sources for financial institutions.

The land registry should undergo complete overhaul to urgently improve its capacity and staffing. There is an urgent need for a thorough audit of all existing land titles to create a fresh complete database of land titles. This is expected to eliminate the possibilities of falsified land titles being issued by the land registry. This will increase confidence by the financial institutions in the available land titles as collateral for housing finance.

There is need for capacity building to improve on the available expertise in valuation of properties. This will help in ensuring conformity and reduction of the perceived unfairness by potential borrowers, who feel that financial institutions undervalue their properties in a bid to reduce on the maximum loan amounts they can offer. This can be further improved through creation of a database showing sale prices of all properties in any given location. This should be linked to the land registry database for ease of implementation.

### **5.5.3 Housing Finance and Affordable Housing**

The law on pension funds should be amended to allow National Social Security Fund (NSSF) to facilitate housing finance by providing collateral for members of the fund. Additionally, NSSF should provide housing finance as one of its line of businesses since it has lots of funds at its disposal.

The government should streamline house plan approvals at all local authorities to ensure that adequate information is provided to those who want their plans approved. This will reduce on trouble that people go through to obtain approved plans.

Relating to affordability, financial institutions can create varying housing finance products to accommodate the low and middle income earners. Such products should to be tailor-made to match the existing economic conditions so that some conditions for obtaining loans are relaxed without necessarily increasing on the risk exposure for the financial institutions.

## **5.6 Area for Further Study**

The emphasis of this study was on Kampala Capital City, an urban area. It is important to note that Uganda as a country is made up of other urban areas and has a largely rural population and as such for national aggregation, there is need for a study covering a broad geographical scope to take into consideration the other urban areas and non-urban areas.

## REFERENCES

- Alexander, C. (1977). *A Pattern Language*. New York, NY: Oxford University Press.
- Amin E. M. (2005). *Social Science Research: Conception, Methodology and Analysis*. Makerere University Kampala
- Arrossi, S., Bombarolo, F., Harddoy, J. E., Mitlin, D., Cossio, L. P. & Satterthwaite, D. (1994) *Funding Community Initiatives*, London. Earth scans publication.
- Baguma, A. (2008, July 10). *Population Growth: Can Uganda meet the challenge?* The New Vision, Vol. 23, No. 137, P. 16 – 17.
- Baharoglu, D. & Lindfield, M. (2000) *Housing Finance Guidelines*. Rotterdam, Institute for Housing and development studies.
- Bongwa, A. & Welsh, S. (2005) *Glossary of basic terms used in housing finance*. Institute for Housing and Urban Development Studies. Rotterdam.
- Bourdieu, P., 1984. *A Social Critique of the Judgment of Good Taste*. Reprint. International Sociological Association, Boston: MA, USA.
- Burnham, R., 1998. *Housing Ourselves: Creating Affordable Sustainable Shelter*. New York, NY: McGraw Hill.
- Cain, Allan (2007), "Housing microfinance in post-conflict Angola. Overcoming socioeconomic exclusion: land tenure, credit and basic services", *Environment and Urbanization*, Vol. 19, No. 2, Pages 361 – 390.
- Daily Nation September 12<sup>th</sup> 2013, Page 7: Financiers target Middle Income Buyers, by Immaculate Wairimu
- Davis, S., 1995. *The Architecture of Affordable Housing*. Berkeley, CA: University of California Press.
- Douglas, M., 1996. *Thought Styles: Critical Essays in Good Taste*. London, UK: Sage Publications.
- Erhard, M. (1999) *Long term Housing Loans to low and medium income households in Bosnia and Herzegovina: The experience of developing and appropriate credit technology*.



Financiers target Middle Income buyers (2013, September 12). Kenyan Daily Nation, <http://www.nation.co.ke>

Ferguson, B. (1999) *Micro-finance of housing: A key to housing the low or moderate-income majority?* in *Environment and Urbanization*, Vol. 11, No. One. International Institute for Environment and Development: London. April 1999.

Freire M, and Stren R. (2001). *The Challenges of Urban Government: Policies and Practices*. The World Bank Institute, Washington DC, USA

Geoffrey Payne and Michael Majale (2004). *The Urban Housing Manual: Making Regulatory Frameworks Work for the Poor*. Earthscan Publishers, London, UK

Hasan, A., (1990) *Community organizations and Non-Government Organizations in the urban field in Pakistan*. *Environment and Urbanization*, Vol. 2, pp. 74-86, *International Institute for Environment and Development, London, UK*.

Hojrup, T., 2003: *State, Culture, and Life Modes: The Foundations of Life Mode Analysis*. London, UK: Ashgate.

IMF Country report (2003). *Uganda Financial System Stability Assessment*. IMF Report No. 03/97.

Maurer, L., 1994. *New Urban Housing: Fresh Thinking from the Pittsburgh Design Competition*. Pittsburgh, PA: Community Design Centre of Pittsburgh.

Mitlin, D. (1997). *Building with credit: Housing finance for low-income households*. *Third World Planning Review*, 19, 21-50, *International Institute for Environment and Development, London, UK*.

Mitlin, D., October 2007 and April 2008: *Journal on Environment and Urbanisation*, 11, 185-199, *International Institute for Environment and Development, London, UK*.

Mitlin, Diana (2008), "Finance for Low-Income Housing and Community Development", *Global Urban Development Volume 4 Issue 2 November 2008*, *International Institute for Environment and Development, London, UK*.

Mugambe P. (2009): *Access to Housing Finance by Urban Middle-low Income Salary Earners in Kampala City, Uganda*. A Master's Thesis, Erasmus University of Rotterdam, retrieved 21<sup>st</sup> February 2013.

Mugenda and Mugenda, (1999). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi, Kenya, ACTS Press.

Salama A.M., 2006. *A Life Style Theories Approach for Affordable Housing Research in Saudi Arabia*. Emirates Journal for Engineering Research, 11 (1), 67 – 76: College of Environmental Design, King Fahd University of Petroleum and Minerals – KFUPM, Dhahran, Kingdom of Saudi Arabia.

Sarantakos, S. (1998). *Social Research*. 2<sup>nd</sup> Edition, Charles Sturt University, Australia,

Sekaran, U (2003). *Research Methods for Business: A Skill Building Approach*. John Wiley and Sons. Inc. New York

Shelter and Settlements Alternatives, Uganda Human Settlements Network, website: <http://www.ssauganda.org/index.php?q=Housing-Finance>, accessed 30<sup>th</sup> Oct 2013

Shelter Rights initiative & United Nations committee on Economic Social and Cultural Rights, (2001) *Parallel report on the state of economic, social and cultural rights in Nigeria 1999 – 2001*: to the United Nations Committee on Economic, Social and Cultural Rights, Lagos, Shelter Rights Initiative (SRI).

Stein, A. & Vance, I. (2008) *the role of housing finance in addressing the needs of the urban poor: lessons from Central America*. Environment and Urbanization, 20, 13-30.

Uganda Bureau of Statistics, 2002: *Statistical Abstract*, Statistics House, November 2002.

Uganda Bureau of Statistics, 2005: 2002 Population and Uganda National Housing Census Analytical Report

Uganda Bureau of Statistics, 2010: *Statistical Abstract*, Statistics House, June 2012.

Uganda Population Secretariat (2007), State of Uganda's Population Report 2007: Planned urbanization for Uganda's Growing Population, UBOS

UN Habitat 2010: *Uganda Urban Housing Sector Profile*, UN Habitat 2010 Vol. 2, UNON Publishing Services Section, Nairobi, Kenya)

UN Habitat, 2011: *Affordable land and housing in Africa* Volume 3– United Nations Human Settlements Programme (UN Habitat), 2011, UNON Publishing Services Section, Nairobi Kenya,

Warnock, V. C., Warnock, F. E. & National Bureau of Economic Research (2007). *Markets and housing finance*. NBER working paper series working paper 13081. Cambridge, MA, National Bureau of Economic Research.

Womakuyu, F. (2008, July 12). *Massive Housing Shortage Looming*. *The New Vision*, Vol. 2 No. 028; Page 10 – 11.

## APPENDICES

### Appendix 1: Survey Questionnaire for Credit Officers

1. What facility(ies) does your institution offer, that caters for affordable housing especially for the middle income earners?
2. Of the above, what is the most preferred and why?
3. Please provide numbers of people who have accessed such services in the last five years?

<b>Service/ Facility</b>	<b>Mortgage</b>	<b>Loans</b>	<b>Housing Finance</b>	<b>Total</b>
2012				
2011				
2010				
2009				
2008				
<b>Total</b>				

4. What challenges have you faced/experienced in as far as the above services are concerned?
5. What strategies have you put in place to avert such from reoccurring?
6. What are your conditions for giving out housing finance?
7. Which of these conditions is most important and why?
8. What do you propose should be done to improve access to housing finance?
9. Any comments on the way forward to attract more customers especially the middle income earners?

## **Appendix 2: Interview Schedule for Bank Directors and Branch Managers**

1. What facilities does your institution offer for affordable housing especially for the middle income earners?
2. What challenges has your institution faced in as far as the above services are concerned?
3. What interventions have been put in place to alleviate such challenges
4. What strategies have you put in place to avert such from reoccurring?
5. What are your conditions for giving out housing finance?
6. Which of these conditions is most important and why?
7. What do you propose should be done to improve access to housing finance?
8. Any comments on the way forward to attract more customers especially the middle income earners?

### **Appendix 3: Interview Schedule for Other Stakeholders in Housing**

1. What are your comments on the conditions for giving out housing finance to clients in Uganda?
2. Would you recommend any review in some of these conditions?
3. What do you think should be done to improve access to housing finance?
4. What is the view of your institution (ministry or Bank of Uganda) on access to housing finance in Uganda?
5. What course of action(s) is your institution (ministry or Bank of Uganda) taking regarding access to housing finance?
6. Any general comments on housing finance?

## Appendix 4: Survey Questionnaire for Beneficiaries

### General information

This questionnaire is for purposes of generating knowledge about access to housing finance. All information provided will be kept confidential and only used for purposes of this study only. Please mark the most appropriate response in the space provided on the right hand side. Where necessary provide a written response in the space provided or on any extra piece of paper.

***NB: Fill in space or tick against the appropriate response***

1. Age of respondent \_\_\_\_\_
2. Sex of respondents 1) Male          2) Female
3. Employment status of respondents 1) Not employed          2) Employed (either self or by someone)

### Mortgage financing

How strongly do you agree or disagree with the following statements? Tick or circle the most appropriate using the following scale. If you are not sure of any items, circle or tick the number under “Not sure”. Please do not omit any feature.

SD = Strongly Disagree          D = Disagree          NS = Not sure          A = Agree  
SA = Strongly Agree

Items	SD	D	NS	A	SA
1. I have ever tried to receive or thought of receiving a mortgage loan to finance housing requirements					
2. It is frustrating for me to access a mortgage loan to finance housing requirements					
3. There are a lot of procedures before a person access a mortgage loan to finance housing requirements					
4. The cost of financing the mortgage loan for housing requirements is too high					
5. I have failed to get a mortgage loan to finance housing requirements because I cannot meet the mortgage requirements					
6. I will go back to get a mortgage loan to finance housing requirements					
7. I would recommend a friend/relative to get mortgage loan to finance housing requirements					

### Housing loans

How strongly do you agree or disagree with the following statements? Tick or circle the most appropriate using the following scale. If you are not sure of any items, circle or tick the number under “Not sure”. Please do not omit any feature.

SD = Strongly Disagree      D = Disagree      NS = Not sure      A = Agree  
SA = Strongly Agree

Items	SD	D	NS	A	SA
1. I have an account for accessing a housing loan to finance housing requirements					
2. I can access the amount of housing loan I want					
3. I find difficult in accessing a housing loan to finance housing requirements					
4. The procedure for getting a housing loan is frustrating to finance housing requirements					
5. The interest rate for a housing loan to finance housing requirements is affordable					
6. I will go back to get a housing loan to finance housing requirements					
7. I would recommend a friend/relative to get a housing loan to finance housing requirements					

### Housing finance

How strongly do you agree or disagree with the following statements? Tick or circle the most appropriate using the following scale. If you are not sure of any items, circle or tick the number under “Not sure”. Please do not omit any feature.

SD = Strongly Disagree      D = Disagree      NS = Not sure      A = Agree  
SA = Strongly Agree

Items	SD	D	NS	A	SA
1. A rotating savings system has helped me to finance housing requirements					
2. The process of getting help from the rotating savings system to finance housing requirements is frustrating					
3. I would recommend a friend/relative to a rotating savings system to finance housing requirements					
4. A credit association has helped me to finance housing requirements					
5. The process of getting help from the credit association to finance housing requirements is frustrating					
6. I would recommend a friend/relative to a credit association to finance housing requirements					
7. A public finance organization helped me to finance housing					



requirements					
8. The process of getting help from the public finance organization to finance housing requirements is frustrating					
9. I have a person saving account to finance housing requirements					
10. I would recommend a friend/relative to open a person saving account to finance housing requirements					
11. The process of getting help from my person saving account to finance housing requirements is frustrating					

### **Affordable housing**

How strongly do you agree or disagree with the following statements? Tick or circle the most appropriate using the following scale. If you are not sure of any items, circle or tick the number under "Not sure". Please do not omit any feature.

SD = Strongly Disagree      D = Disagree      NS = Not sure      A = Agree  
SA = Strongly Agree

<b>Items</b>	<b>SD</b>	<b>D</b>	<b>NS</b>	<b>A</b>	<b>SA</b>
1. I can afford to get adequate building materials					
2. I can afford to meet the cost for the building materials					
3. I am able to buy assets for my home					
4. The duration of acquiring an affordable house is too long					
5. Total cost of complete house is unaffordable					