THE ROLE OF FINANCIAL INSTITUTIONS TOWARDS AFFORDABLE HOUSING TO URBAN MIDDLE INCOME EARNERS: EVIDENCE FROM KAMPALA CITY, UGANDA

Kenneth Atuheire[1] and Gerald Kagambirwe Karyeija[2]

ABSTRACT

The general objective of the study was to assess the role of financial institutions towards affordable housing to middle income earners in Kampala City. A sample size of 113 respondents was selected using both probability and non-probability sampling methods. Data was collected and analysed using mixed methods. Findings revealed a weak positive effect (=.312) of mortgage financing towards affordable housing and accounted for 9.7% change in affordable housing. This study also established a moderate positive effect (=.472) of housing loans towards affordable housing and accounted for 22.3% change in affordable housing. Findings further revealed a weak positive effect (=.345) of housing finance on affordable housing and contributed to 11.9% change towards affordable housing. Three major conclusions are made, i.e. a) when access is limited to mortgage financing, access to affordable housing is also limited and need for housing loans arises because they make great sense from a long-term savings perspective. These are useful to social work because the provision of housing extends across all of social work's various arenas of endeavour, and Uganda is struggling to use housing finances to overcome the housing deficit. Additionally, social work research related to overcoming urban housing deficits adds knowledge to the way Africa is working to meet housing needs for the urban middle class.

KEY TERMS*:* Affordable housing, financial institutions, Uganda, middle income earners.

[1]Department of Political and Administrative Sciences, Uganda Management Institute, P. O. Box 20131, Kampala, Uganda.

[2]School of Management Science, Uganda Management Institute.

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). 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.

The key questions this study investigated were; a) What role has mortgage financing played in facilitating middle income earners in Kampala City to acquire affordable housing?, b) What is the impact of housing loans in facilitating middle income earners in Kampala City to acquire affordable housing? , and c) What impact has housing finance had in facilitating middle income earners in Kampala City to acquire affordable housing? The study sought to test the following hypothesis

1. "Mortgage financing plays an important role towards affordable housing by the middle income earners in Kampala City".
2. "Housing loans have not facilitated the acquisition of affordable housing by the middle income earners in Kampala City".
3. "Housing loans have not facilitated the acquisition of affordable housing by the middle income earners in Kampala City".

BACKGROUND TO THE STUDY AND RESEARCH PROBLEM

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.

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 City is still on the rise. This is supported by the Uganda Bureau of Statistics Report, 2005, which indicates that Kampala 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 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 City. This, therefore, became the focus of the study.

THEORETICAL FRAMEWORK

The study was guided by the Life Style Theory by Salama (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 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 constitutes the main concern of the study since the middle income earners fall in this category; and c) Career Oriented Category where the house reflects personal progress in position, social status, past and recent experiences (Salama, 2006).

Davis (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 (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 (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 (1996) cited by Salama (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, 2006).

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 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, i.e. $115- $308.

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.

METHODOLOGY

A case study design was used in order to make 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 Both quantitative and qualitative approaches were used by the researcher to ably answer the stated research questions. The study was conducted in Kampala Central division which is one of the five municipalities of Kampala 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.

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 Development Finance Company of Uganda (hereafter DFCU) Bank, Housing Finance Bank (HFB) and two micro-finance deposit taking institutions namely Pride Microfinance Limited and Federation for International Community Assistance (hereafter 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 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.

FINDINGS

Mortgage financing and affordable housing

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 ( ) 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 1 presents the test results for the first hypothesis.

Table 1: *Correlation between mortgage financing and affordable housing*

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

The study found a weak positive correlation (=.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 (2=.097), was computed and expressed as a percentage to determine the change in affordable housing due to mortgage financing. Mortgage financing accounted for 9.7% change towards affordable housing in Kampala 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 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 City and the reverse was true.

Access to mortgage finance is limited. Few respondents indicated that they 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. 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.

Housing loans and affordable housing

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 ( ) was used to test the hypothesis as in Table 2.

Table 2: *Correlation between housing loans and affordable housing*

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

Findings show that there was a moderate positive correlation (=.472) between housing loans and affordable housing. The coefficient of determination (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 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.

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 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 limit 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 City.

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. 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 (Beck & Heiko, 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).

Housing finance and affordable housing

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 City". Spearman Rank Order Correlation Coefficient was used to test the hypothesis. Table 3 presents the test results.

Table 3: *Correlation between housing finance and affordable housing*

Dependent variable	Independent variable Housing finance
affordable housing	*rho* = .345 *rho* ^{2} = .119 p = .002 n = 81

Findings seems to suggest a weak positive correlation (=.345) between housing finance and affordable housing. The coefficient of determination (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 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 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 City. However, any difficulties in access to housing finance by the middle income earners would negatively affect the acquisition of affordable housing within Kampala 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 reduces on the housing deficit in Uganda including Kampala 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.

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 elaborates 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.

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 reveal 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 (Beck & Heiko, 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 (Beck & Heiko, 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 the 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.

CONCLUSIONS AND IMPLICATIONS

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 discourages 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.

With regard to housing loans, 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.

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.

REFERENCES

Alexander, C.; 1977. *A Pattern Language.* New York, NY: Oxford University Press.

Amin, E. M.; 2005. *Social Science Research: Conception, Methodology and Analysis.* Kampala. Makerere University.

Arrossi, S., Bombarolo, F., Harddoy, et al. 1994. *Funding Community Initiatives*. London, Earth Scans Publication.

Beck, Thorsten & Hesse, Heiko, 2009. "Why are interest spreads so high in Uganda?" Journal of Development Economics, Elsevier, vol. 88(2), pages 192-204

Baguma, A.; 2008. Population Growth: Can Uganda meet the challenge? *The New Vision*, Vol. 23, No. 137, 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. Boston: MA, USA International Sociological Association.

Burnham, R., 1998. *Housing Ourselves: Creating Affordable Sustainable Shelter.* New York, NY: McGraw Hill.

Cain, A.; 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.

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: 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.*

Ferguson, B.; 1999. Micro-finance of housing: A key to housing the low or moderate-income majority? in *Environment and Urbanization*, Vol. 11.

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

Giddings, S.W. (2009) *the land market in Kampala and its effect on settlement patterns*, Washington DC. International Housing Coalition.
Hasan, A.,; 1990. Community organizations and Non-Government Organizations in the urban field in Pakistan. *Environment and Urbanization*, Vol. 2, pp. 74-86,

Payne, G. and M., Majale.; 2004. *The Urban Housing Manual: Making Regulatory Frameworks Work for the* Poor. London: Earthscan Publishers.

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

Mitlin, D.; 2008: *Journal on Environment and Urbanisation*, 11, 185-199.

Mitlin, D. 2008. "Finance for Low-Income Housing and Community Development", *Global Urban Development* Volume 4 Issue 2.

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 21st February 2013.

Mugenda, O. M. and Mugenda, A. G.,; 1999. *Research Methods: Quantitative and Qualitative Approaches*. Nairobi, 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.

Sarantakos, S.; 1998. *Social Research*. 2nd Edition, Charles Sturt University.

Sekaran, U.; 2003. *Research Methods for Business: A Skill Building Approach.* New York.
John Wiley.

Shelter and Settlements Alternatives, *Uganda Human Settlements Network*, website:
http://www.ssauganda.org/index.php? q=Housing-Finance, accessed 30th 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*, Kampala. Uganda Bureau of Statistics.

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

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

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

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

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

Wairimu, I.; 2013, *Daily Nation*: Financiers target Middle Income Buyers. Nation Group.

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. Massive Housing Shortage Looming. *The New Vision*, Vol. 2 No. 028; Page 10 – 11.

World Bank. (2009). *Making Finance Work for Uganda* Report, December, Financial and Private Sector Development, Africa Region, Washington DC. World Bank.