Housing Finance in Kampala, Uganda: To Borrow or Not to Borrow

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Abstract

Housing is an important part of development processes and typically requires long-term finance. Without long-term financial instruments, it is difficult for households to smooth income over time by investing in housing. However, in developing countries the use of long-term loans is limited, particularly among the middle-class and lower income individuals. Most people in developing countries build their houses incrementally over time without long-term loans. The limited use of long-term loans is generally seen as a symptom of market failures and policy distortions.

This thesis empirically explores constraints to increase housing loans and factors that determinate the demand for different types of loans for investment in land and residential housing. The study is conducted in Kampala, the capital of Uganda. The thesis looks at supply and demand of loans. Most of the data on the supply side is collected through interviews and literature studies. The demand side is investigated through questionnaires to household where data is collected in four surveys targeting different household groups.

The findings indicate that in the context of Kampala, there are factors affecting the demand for housing loans that have not previously been fully explored. The surveys on the demand for housing loans among middle income groups suggest that a main reason for not taking a long-term loan is not limited access but the risk of losing the property due to the foreclosure process in case the borrowers fail to pay back the loan on time. Therefore they prefer to take short-term loans, so called salary loans that are not secured on their property, even though they are more expensive than a loan secured on their formal land ownership. The findings from the informal settlements show that the low demand for loans is more dependent on affordability and the short maturity of credits that they can access. Other findings are more in line with earlier international studies, such as inefficient land administration as a constraint for formalizing land and using land as security. The distribution of land rights and the system of land administration and management requires upgrading of land policies and their impacts. Information asymmetries also undermine the identification and credit rating of borrowers. Lack of long term funding is another constraint to increase long- term loans.

A general conclusion that can be drawn from the findings is that those that need and can afford a loan for investment in land and/or housing prefer to take short-term loans instead of a larger long-term loan secured on their land. In doing so, they avoid exposing themselves to the risk of losing their land due to the foreclosure process in case they fail to pay back the loan disbursements on time. These findings contradict much of the concerns that both scholars and financial providers have expressed about households choice of loans. Even though there are obstacles on the supply side, understanding the demand side is very important.

Sammanfattning

Bostadsproduktion är en viktig faktor i utvecklingsprocesser och detta kräver vanligtvis långsiktig finansiering. Utan långsiktiga finansiella instrument för enskilt byggande är det särskilt svårt för hushåll att utjämna kostnaden för större bostadsinvesteringar över tid. I utvecklingsländer är det vanligtvis få som har tillgång till långfristiga lån, särskilt bland medelklassen och lägre inkomstgrupper. De flesta människor i utvecklingsländer bygger istället sina hus stegvis under en längre tid utan stöd av långfristiga lån. Att få har långfristiga lån kan ses som ett tecken på marknadsmisslyckanden och politiska snedvridningar.

Denna avhandling undersöker vilka faktorer som begränsar utbudet av bostadslån samt efterfrågan på olika typer av lån för investering i bostadsfastigheter (mark plus byggnader).

Avhandlingen betraktar enskilt bostadbyggande och lånesituationen i Kampala, Ugandas huvudstad. Den belyser utbud av och efterfrågan på bostadslån för privatpersoner. Materialet på utbudssidan består av intervjuer och litteraturstudier. Efterfrågesidan har undersökts genom enkätstudier riktade till fyra olika inkomstgrupper.

Resultaten indikerar att det finns faktorer som påverkar efterfrågan på bostadslån som inte tidigare varit helt uppmärksammade. De två undersökningarna bland medelinkomstgrupper tyder på att en huvudorsak till att inte ta ett långfristigt lån är inte begränsad till tillgång till sådana lån utan på risken att förlora fastigheten som utgör säkerhet för lånet ifall låntagaren inte kan betala tillbaka lånet i tid.

Därför föredrar de flesta att ta kortfristiga lån, som inte är säkrade i deras egendom. Detta trots att de är dyrare än lån mot säkerhet i deras fastigheter. Resultaten från de två studier som gjorts i slumområden visar att efterfrågan på lån överhuvudtaget är liten vilket beror på höga räntor och den korta löptiden för krediter som de har tillgång till. Andra resultat är mer i linje med tidigare internationella studier, såsom ineffektiv och kostsam markadministration och fastighetsregistrering, vilket hindrar formalisering av rätten till fastigheten och dess användning som säkerhet.

En allmän slutsats är att de som behöver och har råd med ett lån för investeringar i mark och/eller bostad föredrar att ta kortfristiga lån i stället för ett större långfristigt lån säkrat i deras fastighet. På så sätt undviker man att utsätta sig för risken att förlora sin egendom på grund av en utmätningsprocess i fall man får svårigheter att betala tillbaka lånet i tid. Dessa resultat kompletterar bilden av det som både forskare och finansiärer har uttryckt om hushålls val av lån. Så även om det finns hinder på utbudssidan, är det viktigt att också förstå problemen på efterfrågesidan.

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Stockholm, February 2017
Annika Nilsson

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Chapter 1

Introduction

1.1 Background

Housing is capital intensive and improved housing constitutes an important part of the development processes. According to assessments made by the UN, three billion people will need new housing and basic urban infrastructure by 2030. Africa and Asia, where urbanization is still at relatively low levels, will especially face challenges. Higher levels of urbanization and lack of housing lead to increased slum populations in developing countries. In many African cities, informal settlements have already outgrown the formal ones (UN-habitat (2014a)), (UN-habitat (2014b)).

The dominance of informal settlements in a society is problematic in many respects. It deprives governments of a tax base that is important for the provision of public goods that are necessary to sustain the growth process (Barro (1990)). It also tend to keep a large share of the population outside the formal legal system. Low housing quality also affects health and well-being in general, even though it must be kept in mind that the alternative in the countryside might not be better. At the same time, these informal settlements have been argued to be the sole place to live in, and represent an important source of incomes and wealth in countries plagued by bad government practices (Parente et al. (2000)).

Addressing the large need for improved housing, requires large-scale investment in housing production. Governments cannot meet this burden alone. Private sector funds need to be channeled into housing investment. This requires a functioning housing finance system that provides long-term finance. Banks are typically the most important providers of long-term finance. However, currently the average share of individuals with an outstanding loan to purchase a home is 2.5 per cent in lower-middle and low-income countries, compared to 21 per cent in high-income countries (Honohan (2008)), (Badev et al. (2014)). In developing countries, 90 per cent of households construct their houses incrementally, *i.e.* step by step, over a long period of time, often not complying with planning and building regulations. Sometimes it is supported with small loans spread out over time (Habitat for Humanity (2014)), (Smets (2006)), (UN-habitat (2005)).

A financial liberalization took place in a large number of developing countries in the 1980s and 1990s. In Sub-Saharan countries, the banking and financial sector has significantly changed during the past 20 years. Banking systems are now deeper and more stable, and the incidence of systematic bank crisis has declined dramatically in the past two decades. Despite these achievements, concerns remain that this progress is not sufficient. Many countries still have low depth and limited financial inclusion. They have not succeeded in making credit available to increase long-term investment as expected. Housing loans are typical examples of such long-term loans. In Africa bank lending is in particular more short-term, and more expensive than in other countries (Beck et al., 2008). Another feature of financial markets in developing countries is the existence of a parallel informal financial market, in which a relatively large part of the population borrow and deposit money with informal financial intermediaries, instead of using the formal financial sector (Banerjee and Duflo (2007)), (Honohan (2008)). The reason for the existence of the informal market has also been in focus of discussions (Honohan (2008)).

According to the World Bank's Global Financial Development Report 2015-2016: Long-term Financing, extending the maturity structure of finance is a major goal for achieving sustainable financial development (The World Bank (2015a)). Understanding the low level of long-term loans and the persistence of high levels of short term loans is important, not only to design growth-promoting policies and provide better housing conditions, but can also be important in order to achieve stability by allowing firms and households to make lumpy investments such as making housing affordable. A house is the largest asset most individuals will acquire during their lifetime. Mortgage loans allow households to spread the cost of the purchase over many years and at the same time enable them to enjoy the immediate benefit of owning a house.

Government policies that give rise to a stable political and macroeconomic environment, and reduce information asymmetries, are seen as important for the availability of long-term loans (Caprio and Demerguc-Kunt (1998)), (Demirguc-Kunt and Maksimovic (1996)). When providing long-term loans, banks usually take on liquidity risks, when transforming short-term deposits into long-term loans (Diamond (1984)). The extent to which banks can perform this intermediary function depends, among other factors, on how well banks can assess credit risks, when screening potential borrowers. To alleviate moral hazard, one of the major screening mechanisms of banks providing longer-term loans, such as housing loans is collateral in the form of a formal land title. In *The Mystery of Capital*, the Peruvian economist Hernando de Soto (2000) suggests one explanation to why liberalization of capital markets in developing countries fails to reach out to the larger population; the majority does not own formally titled property. The lack of formal titling prevents investment, since the property can't be used as collateral, and hence prevents the capital embedded in these assets from being "unlocked". de Soto's vision is to develop proper legal frameworks, which recognize the assets of the informal economy and create a system of protecting and giving value to the property of the poor, so they can access capital from formal financial institutions. The Nobel prize winner

Douglas North (1990) emphasizes the role of policies that define and enforce property rights in development efforts. Broad-country evidence also shows that there is a positive correlation between effective protection of property rights and the use of external finance. For example, the availability of external finance is correlated to stronger legal system and especially more effective protection of investors (La Porta et al. (1997)), (La Porta et al. (1998)), (La Porta et al. (2000)), (Qian and Strahan (2007)), and there is more investment among firms from external funds when there is an effective protection of property rights (Demirguc-Kunt and Makismovic (1998)). Firm-level data from 39 countries suggest that firms with weaker legal enforcement use more short-term loans (Fan et al. (2012)), while creditor rights are positively associated with loan maturity (Qian and Strahan (2007)).

Evidence from development of housing finance also shows a strong positive association, between the development of housing finance and legal rights for borrowers and lenders, when measured by collateral and bankruptcy laws (Warnock and Warnock (2008)), (Badev et al. (2014)). Already in the eighties it was acknowledged that the main reason for the low supply of mortgage credit in developing countries was the high cost of enforcing contracts (Buckley (1989)). Besley and Ghatak (2010) explains how credit constraints are alleviated through property rights. To be able to use land as collateral, there must be a legal structure making it possible for the bank to enforce the loan, in case of default. They argue that secure property rights make it easier for lenders to foreclosure loans, in case of default, which in turn lower the interest rate and increases access to credit.

The microeconomic evidence on the correlation between land titling programs and access to finance is weaker. For instance Woodruff (2001), finds that owners of untitled land are as likely to receive credit as farmers with titled land, even from banks. He questions de Soto's theories, that property titling can serve as an easy remedy to poverty. Woodruff further argues that titling programs should be carried out in accordance with the definition of property rights that characterize land tenure in developing countries. He also stresses the cost of land titling that often include contradictory claims of ownership and compensation to owners of land, that have been occupied through illegal squatting.

Field (2005) investigates both the effect on investment and access to credit of land titling on low income households in urban surroundings in Lima. She finds that investments increase, although the majority of this investment is financed without credit. In another survey about Lima, Field, E. and Torero, M. (2006) analyse credit access for the participants in the housing-titling program. They find that land titling is related to increases in loan approval rates from the public sector bank for housing construction materials, but they find no increase in loan approval rates from private financial institutions. A title on the land may also affect credit access indirectly, because of more efficient labour allocation, so the household can get a lower interest rate, since it belongs to a lower risk group.

The possible benefits of the Tanzanian government's programme to formalise (some) informal settlements in Dar es Salaam in 2005, has been investigated by (Coolin et al. (2015)). They found little effects on land investment as proxied by construction and improvements to existing structures, as well as access to credit. Samuelson (2001) faults de Soto for his neglect of the cultural dimension of the pursuit of economic development, adding that property rights are not the only way of progress, but a simple reflection of the larger culture. He also questions the reliability of the data de Soto reports, the vague methodology he uses, and the oversimplification that property titling can serve as an easy remedy to poverty.

Johnson et al. (2002) has investigated what is the main constraint on private investment: weak property rights or limited access to external finance? Using a survey of small manufacturing firms in five post-communist Eastern European countries, they show that property rights are more important than external finance for firms to reinvest their profits.

In sum, these studies demonstrate that there are controversies about land titling programs' impact on investment and on access to credit. This may partly be explained by the different contexts in which the research has been carried out, but also by lack of data.

At the same time, these findings open up new questions. For example, is owning land an adequate proxy for at least having the possibility to get a bank loan, or are there types of bank loans available? Are secure property rights necessary, sufficient or both necessary and sufficient for getting a loan that can be used for investment in housing? And even if a person owns land that can be used as collateral, is it obvious that they want to use that asset as collateral, considering the risk of losing the collateral, in case they fail to pay back the loan disbursements on time? And maybe there is no need of bank loans for investment in land and housing.

1.2 Basic framework

I have developed a real estate pyramid for this research project, see Figure 1.1. The real estate pyramid illustrates the different amounts of real estate, that households have access to, both in terms of values, and their potential use as collateral. It is an approach that has as its point of reference in how to increase outreach and usage of long-term mortgage loans. Outreach is defined as the effort of financial providers, to extend mortgage loans to a wider group of people, *i.e.* increased access.

Below, I will draw up what can be supposed to be the main characteristics of three different segments of the real estate pyramid. Yet, it is equally important to recognize the great diversity that exists within each segment.

I. Top part of the real estate pyramid

The top part of the real estate pyramid in Figure 1.1 illustrates properties that easily can be used for long-term mortgage loans. These are houses with high value, often in serviced neighbourhoods of low density. The supply of housing in this high-end sector is comparatively small.

Assumptions about mortgages supporting properties in this segment are:

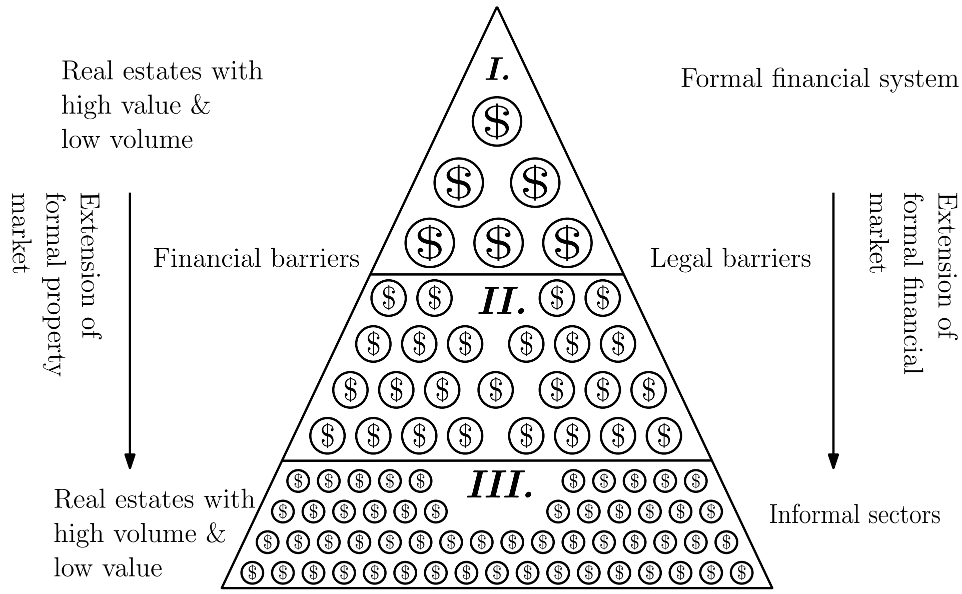


Figure 1.1: The real estate pyramid.

- Mortgage lending institutions in developing countries are similar or identical to lending institutions and banks in developed countries, in the sense that they are characterized by a high degree of control by public authorities.
- Typical loan conditions are characterized by collateral, in the form of a property, formal proof of income, interest payments and possibly lump sum amortizations at maturity.
- In case the borrowers fail to pay back, the collateral is taken from the borrower, *i.e.* the bank is foreclosing the loan.

II. Middle part of the real estate pyramid

The middle part of the real estate pyramid represents houses owned by the relatively big strata of middle-income households. Properties may have formal title, but the value of the property is comparatively low and they do not qualify for a long-term mortgage loan. Most people in the developing world therefore rely essentially on other types of loans, or no loans at all.

The main characteristics of the middle part of the real estate pyramid are:

- Loans in this part, *i.e.* one step "below" mortgage lending, can be offered by the same banks as those that are offering mortgage loans, and also by so called microfinance banks/institutions, moneylenders, friends, and so on.
- The main characteristics of these loans are that they are much smaller than mortgage loans, and the repayment period is much shorter.

- They can be secured like a long-term mortgage loan, *i.e.* a formal land title is then constituting the security and proof of formal income is required. They could also be secured by proof of informal income and/or informal land.
- Enforcement methods of loans vary.
- The lower you come in the real estate pyramid the less institutionalized is the lending assumed to be.

III. The base of the real estate pyramid

The base of the real estate pyramid contains the third and numerically largest group of houses that are often built in a clandestine and illegal way, in the sense that housing and other urban development laws are ignored for a variety of reasons. However, it doesn't mean that it is disorganized.

Target 11 of the Millennium Development Goals (MDGs) MDGs, describes typical slums in developing countries as unplanned, informal settlements, where access to services is minimal to non-existent and where overcrowding is the norm Ministry of Lands, Housing and Urban Development (2008). UN-habitat (2005) defines a slum household as a group of individuals living under the same roof in an urban area that lack one or more of the following: Access to improved water, access to improved sanitation, security of tenure (the right to effective protection by the state against arbitrary, unlawful eviction), durability of housing (including living in a non-hazardous location) and sufficient living area (no overcrowding).

The main characteristics of loans for housing in the base of the real estate pyramid are:

- Loans are very small, and on very short time.
- Access to credit is often based on oral agreements, rather than written contracts, with little or no collateral.
- Access to small short-term loans (informal finance) is relatively easy in terms of formal procedure, in comparison to the more institutionalized lending/formal sector.
- Interest rates are much higher on average than bank interest rates, and also show significant dispersion among different borrowers.
- Since contracts in the informal sector rarely are recorded and enforced by formal legal institutions, repayment may be induced via informal enforcement mechanisms based on social sanctions, coercion or threats of violence.

1.3 Purpose, approach and research questions

A central part of this study is in-depth empirical studies in Kampala of the supply and demand of housing loans, especially more long-term loans like mortgages. A long-term loan is here defined as a loan that has an extended time period for repayment, usually lasting between three and 20 years. A short-term loan, on the other hand, is defined as a loan that typically lasts up to three years. It is well known that few people take loans in Kampala and that short term loans dominate among those who borrow. The basic research question concerns why this is the case.

The study is based on the idea that material from such field studies can be used to assess the different theories discussed above, especially the role of the supply side and the demand side for the small share of more long-term loans in a developing country like Uganda. One specific issue is the role of formal titling of real estate, where de Soto's theory implies that households with a formal title will use long term loans to a larger extent, compared to households with a similar income, but without such a title.

The supply side is first presented by describing the current situation, after the financial liberalization, concerning the development of formal and informal intermediaries. Interviews are made with persons in the financial sector, in order to get information about what loans are offered and under what conditions. The analysis of the supply side on long-term mortgage loans also focuses on the constraints that financial providers encounter. After investigating the constraints on the supply side of long-term mortgages, the demand side of housing loans is investigated. This is done in order to understand the households preferences and attitudes in relation to different kinds of loans. The data collected also covers how households actually finance their houses, the role of incremental building and how they look upon formal land titling. The demand side studies cover four cases, representing different income segments and different types of land ownership, in terms of security and land tenure. Two of the surveys on the demand side are carried out in the more formal economy, while two surveys are carried out in informal settlements.

More broadly, the aim of this project is to provide new insights on the links between financial sector development, housing finance and housing construction. The study will also give information about possible policy interventions and institutional arrangements that can improve access to housing loans for different household groups.

1.4 The choice of Uganda and Kampala

The choice of Uganda among a large number of Sub-Saharan countries is based on several factors. Uganda experienced a highly repressed financial system during the 1970s and 1980s, and is certainly an economy in which financial repression was fully practised. The process of financial liberalization started in the beginning of the 1990s and the major reforms had taken place by 1999. This implies that a considerable time period has passed when conducting this study, which make it possible to study a country where the potential for mortgage lending should be good. A second factor is that Uganda seems to be performing well in terms of economic growth and macroeconomic stability, which should increase the probability for successful financial development. A third factor is that the land and housing situation in Uganda have many similarities with those of other Sub-Saharan African countries, even though there are some significant differences, stemming largely from systems introduced by the British at the beginning of the 20th century. This is particularly true in the central region where the capital city of Kampala is located (Giddings (2009)). Furthermore, although African financial systems are not the same, sufficient similarities exist between the underlying economic conditions that face customers in most of the countries, which can make the result relevant also for other Sub-Saharan countries (Honohan and Beck (2007)).

Kampala

The emphasis is on households living in Kampala, the capital of Uganda. Several considerations explain this focus. Even with a large farm populations and poor rural housing conditions, the problem of housing is mostly an urban problem. In Kampala, estimates of the growing housing deficit are one million units by 2025. Currently around 85 per cent of the city population lives in slums (Giddings (2009)). African cities have some of the fastest growth rates in the world, followed by Asia. In Uganda the urban population is expected to double in 20 years (Ministry of Lands and Development (2010)).

Kampala dominates the urban landscape in Uganda, accounting for one-third of the urban population. The population of Kampala City is growing at an annual rate of 4.1 per cent. This growth is influenced by migration and not just the natural increase (Rugadya (2007)). By 2017, Kampala's population is estimated to grow to over 2.1 million (Giddings (2009)).

A study by Action Aid International estimated that about 1.5 million people (85 per cent of the total city population) currently live in Kampala's slums. In Uganda, Kampala has the largest slums, including the areas Makerere Kivulu, Kamwokya Kifumbira Zone, Banda, Wabigalo, Namuwongo, Katanga, Kalerwe, Nsambya and Bwaise. Other districts with slums include Jinja, Mbale and Gulu (Giddings (2009)). The city of Kampala has remained the main urban center during the period 1991 - 2014. However, the proportion of Kampala city to the total urban population has declined steadily from 41 per cent in 1991 to 25 per cent in 2014, suggesting that the smaller urban areas are growing faster (Uganda Bureau of Statistics (2014a)).

International evidence highlights that urbanization proceeds slowly at initial stages of economic development, accelerates (in the stage where countries classified as middle income) and slows down at high levels of income. In this context, Uganda's urban take-off is yet to come. Uganda's urban shares are still low relative to its neighbors, though there appears to be a consistent link between increasing incomes and changes in urban shares (The World Bank (2012b)).

Furthermore, the best survey data on the use of financial services applies to urban Uganda, and currently banks are mainly offering long-term mortgages for urban investment.

Another reason to focus on urban housing is that most investment in the housing sector takes place in urban areas, where housing problems are generally the most acute.

1.5 Structure of the thesis

This first chapter is an introduction to the thesis, including purpose and research questions, and a description of the basic framework used. In chapter two the applied methods are presented and motivated, and there is also an introduction to the structure of the surveys carried out. Limitations in the methods used are also discussed.

In chapter three, the most relevant theories are presented and discussed with support from previous research. The main theories are the financial repression theory, the paradigm of imperfect information that focuses on asymmetry in information, and de Soto's theory on formal land ownership and access to finance.

Chapter four describes the financial sector before the financial liberalization in the nineties, and the regulatory changes that have taken place thereafter. In light of the regulatory changes, the development of the financial sector is further presented.

The results from the empirical surveys on the supply and demand side are presented in chapters 5-9. In chapter five the supply of credit in Kampala is presented and analyzed. First the legal framework for land and mortgages is presented, thereafter I investigate if the financial market in Kampala is segmented and I also investigate the constraints for long-term mortgages on the supply side.

The first survey on the demand side, presented in chapter six, is a survey carried out among bank customers in Centenary Bank, the so-called Centenary Bank Survey. The investigations include the potential and actual demand for long-term mortgage loans. I also ask questions related to how they have financed their house, apart from bank loans and if housing is a source of income by letting out room/s and/or houses. The following survey, presented in chapter seven, is done in a residential area in Kampala and called the Jomayi Survey. The Jomayi Survey is compared with the answers from the previous survey at Centenary Bank. There are reasons to believe that the profile of the respondents in the two surveys is similar, but the difference is that respondents in the Centenary Bank Survey are buying land and building on their houses, while respondents in the Jomayi Survey had moved into their houses and thus done the larger investments before the survey. The next two surveys, concerning the demand side, presented in chapter eight and nine, are carried out in informal settlements in Kampala and they are called the Slum Survey and Bukasa Survey.

In chapter ten, I discuss and analyze the findings from the previous chapters on the supply and demand for housing loans. In chapter eleven, I present the main conclusions in relation to the theories used and conclude with a policy discussion and suggestions for further research.

Chapter 2

Methods

Research in developing countries has been benefiting of a rich tradition of field research. Within this broad tradition there is a huge variety of methods, from smaller case studies to large-scale surveys. A characteristic of good empirical research in developing countries is that the questions determine the data to be obtained, and not the other way round (Duflo (2006)).

2.1 The choice of data collection methods

In this thesis data is collected through interviews and questionnaries, focusing on a rather small number of cases, both on the supply and demand side. Such methods can be used for several reasons. The aim can be to make exploratory study is useful when the researcher does not know the important variables to examine. This type of approach may be needed when the topic is new, the topic has never been addressed with a certain sample or group of people, or existing theories do not apply with the particular sample or group under study (Morse (1994)).

In this study, however, the aim is somewhat different as there are certain theories in the field, *e.g.* concerning the role of formal land titles for lending possibilites. As Flyvbjerg (2006) has underlined, data from case studies can also be used to test theories. The aim here is, as described in chapter, and also to get more general knowledge about how banks and households think and to get a deeper understanding of the actual and possible role of mortgage financing for housing construction. Another explanation for the chosen approach is the lack of available high-quality, large-scale data that are often available in developed countries, and that could be used for statistical testing of hypotheses. As data collection through interviews and questionnaries is a time-consuming procedure, especially in developing countries, given the resource constraint in a single study, it is not possible to collect data from more than a rather small number of cases. This of course limits the possibility to draw more general conclusions as will be discussed more in section 2.5 below.

Given these basic choices I will explain the general features of my research. The description of these features makes it easier to evaluate if the data collected say anything useful about the underlying processes. It would have been more difficult to tell whether the results are genuine if secondary data were used (Deaton (1997)).

Case studies

The data in this research were collected through case studies. The data collected are derived from complementary supply-side and demand-side data. Case studies are preferable when "how" and "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin (2003)). In a case study the researcher explores in depth a program, an event, an activity, a process, of one or more individuals. The cases carried out in this research are bounded by time and type of activity, in accordance to Stake (1995).

Research based on case-studies is often criticised to be limited and lack validity. Flyvbjerg (2006) meet this criticism in an influential article where he subdivides the misunderstandings about case-studies in five categories.

I have adapted the categories to the contents of my thesis, as follows:

1. Context-dependent knowledge and experience are at the very heart of expert activity.

2. The possibility to generalize from a single case depends on the case one is speaking of and how it is chosen. This applies to the natural sciences as well as to the study of human affairs. The case study is ideal for testing generalizations using the type of test that Karl Popper (1959) called "falsification". Falsification is one of the most rigorous tests to which a scientific proposition can be subjected. The case study is well suited for identifying "black swans" because of its in-depth approach. What appears to be white can turn out to be black on closer examination.

3. The case study is useful for both generating and testing hypotheses but is not limited to these research activities alone.

4. The case study has its own rigor, different, but no less strict than the rigor of quantitative methods.

5. The advantage of the case study is that it can close in on real-life situations directly related to the phenomena as they unfold in practice. It is falsification, not verification that characterizes the case study.

The work with this thesis can be divided into different phases. These phases as well as different methods used for data collection are described in the following sections.

2.1.1 Literature review

The first part of the research was initiated with a literature search about housing finance, particularly mortgage finance in developing countries. A lot is published about access and outreach of financial intermediaries, in particular about micro-finance, but there exists relatively little research about housing finance and mortgages in particular. This seems to be the case for all Sub-Saharan countries. Also, little research is published on the financial sector development in Uganda compared to its neighbouring countries (Sanya and Gaertner (2012)).

I managed to get an overall understanding about the fundamental pillars of the different segments of the financial sector and could build a basic framework for the thesis. The basic framework presented in the introduction,1.2, was very much influenced by the theories of Hernando de Soto. He suggests that lack of formal land ownership is a main bottleneck to housing finance development. In the first phase more general theories about the working of the financial markets were also studied. These are presented in chapter 3.

2.1.2 The supply side – Interviews

Conducting interviews is the most common method used for data collection in a qualitative study (Bell (2000)). It was important to visit Kampala, not only to gather more information, but also to get a better understanding about the context of the housing sector since there are so many things that is taken for granted when one comes from a developed country like Sweden.

During my first visit to Kampala I focused on getting an overall understanding of the supply on the mortgage market and the constraints it encounter and also to establish contacts for further research. The supply side is presented in chapter 5. The information that was needed concerning the supply side of housing finance in Kampala was gathered mainly through interviews. I prepared mainly semi-structured interview questions to the different stakeholders before I travelled to Kampala. During the interviews new questions arouse and new aspects were identified.

Most of the key persons on the supply side of the mortgage market that was contacted for an interview were willing to meet me for an interview, even with short notice. The interviewees were often helpful and interested to meet me again if there was a need for additional information, and they even provided me with new contacts to interview. In fact, no one refused to be interviewed. However, sometimes it happened that a person who I had arranged a meeting did not turn up. This was, however, very rare and did not occur with any of the most important persons. If a meeting became cancelled, I always tried to get a new appointment with the missing person but if I realized that the person was not committed to meet me I did not insist. Instead, I replaced the missing person with one or several others from the same institution. I targeted the stakeholders I had set up as important institutions to interview for my research. In fact, during the first visit I conducted more interviews than I had expected.

As the objective of the interviews was to obtain facts, as well as values, views and attitudes, the questions posed to the different groups were non-standardized, and the interviews were semi-structured. This is in accordance with Lundahl and Skärvad (1996), who state that non-standardized questions are suitable when the need of quantifying is less than the need of flexibility in order to cover the need of information for a qualitative study. Furthermore, the answers are prone to be more nuanced and exhaustive in this case compared to using standardized questions in structured interviews.

When doing interviews as a way of collecting information, one has to consider that there might be a certain bias. The selection of persons to be interview in a case study is therefore very importance if one wants to find the most reliable and most relevant information.

To capture the dynamics and the constraints of the supply of housing finance and in particular mortgages I interviewed persons with good knowledge of and working with one or several of the following areas: the land market, the construction sector, the formal financial sector and the informal financial sector, but also persons with knowledge about the general economic situation in the country. The interviews included the following persons and institutions:

- Representatives of all banks offering long-term mortgages.
- Representatives of 5 commercial microfinance organisations.
- Representatives of non-government organisations.
- Official experts at Ministry of Lands, Housing and Urban Development; Ministry of Finance, Planning and Economic Development; Kampala City Council and Bank of Uganda.
- Representatives of three of the largest Developers.
- Representatives of National Housing and Construction Company and National Security Fund.
- Makarere University (Department Geomatics and Land Management).
- National Social Security Fund.
- Representatives of international organisations, SIDA; World Bank; and IFC (International Financial Corporation)that is a member of the World Bank group.
- Other knowledgeable persons, *e.g.* MAKKS advocates and the CEO as well as members of AREA (Association of Real Estate Agents - Uganda).

Apart from interviewing persons at high positions at their respective institution, interviews were also conducted with people working more directly with the mortgage market, for example loan officers in banks and managers in the land ministry. These interviews helped me to get a more nuanced picture of the housing finance market since I could compare information collected during interviews with people at different "levels" in an organization. I still wanted the interviews to be flexible so that information judged to be relevant by the interviewee and their opinions could be collected. This was done in accordance with Dawson (2002) and Hansson (2007).

People with information about the demand side were also interviewed. I aimed to interview people that had bought land and built a house without any bank loan or with different types of loans, such as mortgage loans and micro-finance loans. By interviewing people on the demand side it was possible to get a deeper understanding of how they were funding their land and houses, which factors determines their choice of finance. The interviews also aimed at getting a better understanding about incremental building as that is the most common way of constructing houses in Uganda. The interviews on the demand side were very informal. Although it was quite easy to get people to talk about housing finance and housing construction, I also realized that only a few had applied for a long-term mortgage loan or planned to do so.

All interviews were conducted when meeting the interviewed persons personally. Face-to-face interaction in a survey has many advantages. For example, it stimulates a higher response rate, and it helps longer and more complex questions to be properly managed. It is better especially for open-ended questions because the interviewer has control over the process and it enables respondents to better understand the questions (Hansson (2007)). The order of the interviews have not been considered. Indeed, a mixed order can provide a good cross-check.

After I had analysed the information gathered during the first field trip it was obvious that more information on the demand side of housing credits was needed. Perhaps the barriers on the supply side of the mortgage credit market had been to much in focus. This led me to reformulate my approach and the second phase of the research was initiated. Since I had established good contacts during my first visit to Kampala and also found it relatively easy to collect data, I decided to carry out questionnaires on the demand side about housing finance.

Secondary data

When being in Kampala secondary data was also collected, although my main focus was gathering primary data through interviews and questionnaires. Data on the economic and social development of Uganda and on the activities of commercial banks were obtained from the Bank of Uganda and Uganda Bureau of Statistics. Data have also been obtained online, such as Economic Reports and Annual Reports from the Bank of Uganda and National Household Surveys from Uganda Bureau of Statistics.

Official data from the beginning of the 1990s and onwards are in general considered to be of good quality. However, often the reports from Bank of Uganda were not consistent over time. There was not only gaps in data, but data obtained from different years was also hard to compare, among other because of different definitions used over the years. This was very challenging as I wanted to present the direction of the development of different ratios over longer periods. I have therefore been careful not to get large differences when using data from various annual reports. Generally, I have used some of this data, especially data presented the last years as it is believed that they give at least a good picture of the general direction of the development of the financial sector.

Data on the banks' requirements for different types of loans have been extracted from the loan folders that the banks provides to their clients. Many interviewees provided written material about their company, and the academics that I met suggested useful articles. All sources can be found in the reference list.

2.1.3 The demand side – Questionnaires

Questionnaires with more detailed questions on the demand-side were formulated based on the knowledge from the first phase. Four questionnaires were delivered; Centenary Bank Survey, Jomayi Survey, Bukasa Survey and the Slum Survey. These surveys are presented in chapter 6, 7, 8, and 9. The surveys on the demand side targeted different segments of the real estate pyramid in Figure 1.1 presented in Chapter 1, see Table 2.1.

Table 2.1: Surveys on the demand side.

Survey	Number of respondents	Assumed location in the real estate pyramid
Centenary Bank Survey	67	Just below the upper part of the pyramid, *i.e.* close to the long-term mortgage market
Jomayi Survey	63	Part of the upper part of the pyramid or just below the long-term mortgage market
Slum Survey	92	In the middle of the real estate pyramid
Bukasa Survey	117	In the lower part of the pyramid, however not at the bottom

The Centenary Bank Survey, with 67 respondents, aimed at a group that was believed to belong just below the top part of the real estate pyramid, see Figure 1.1. The Jomayi Survey, with 63 respondents, focused on a group that was believed to be located at the top part of the real estate pyramid, or just below it. The

Slum Survey and Bukasa Survey were both targeting respondents owning land in informal settlements. The Slum Survey, with 92 respondents, had a target group that was believed to belong to the middle part of the real estate pyramid. The Bukasa Survey, with 117 respondents, was believed to cover households that belong to the lower part of the real estate pyramid.

More detailed arguments about the different surveys and their assumed location in the real estate pyramid are presented below. But first I give a general introduction to the structure of the questionnaires and selection of respondents.

Structure of the questionnaires

A theoretical underpinning in the questionnaires is the view that a low level of observed use of bank loans has to be distinguished from a situation where there is a problem with access to such loans (Beck and De la Torre (2007)).

The structure used in the questionnaires is based on a method developed by Porteous (2005) that separates potential and actual demand for bank loans. Potential demand concerns whether a person qualifies for a certain type of credit, while actual demand takes into account voluntary self-exclusion and reasons for that. Access problems have traditionally been categorized into several types; namely geographic limitations reflecting areas isolated from bank branches, socio-economic limitations that refer to a situation when financial services are inaccessible to specific income, social or ethnic groups and such limitations of opportunity. In the surveys I am considering socio-economic factors that can determine access.

Potential demand is surveyed by asking questions related to the respondents access to bank loans for buying land and building a house, particularly loans secured on land. Actual demand for bank loans refers to if they have taken any bank loan, especially loans secured on land, or have planned or are planning to do so. If they answered that they had not taken and not planned to take any loans, they are further asked about the reasons for that. I was furthermore asking questions related to incremental building in order to get a better understanding about the use of bank loans and other sources of funding. I also asked questions related to if housing is source of income by renting out houses and rooms, since that income can be considered by a bank. The possible answers in the questionnaires were all based on previous interviews and research, but there were also more open alternatives. The structure with the surveys are presented in Table 2.2.

Selection of respondents in the questionnaires

It would be easy to do a survey if: *a)* there exists a reliable, up-to-date list of all households in the selected population, *b)* a design is used assigning an equal probability to be selected to each household in the population and *c)* in the implementation stage, all households asked to participate actually do so. The answers would then represent a random sample, but in very few surveys is it possible to implement such a simple structure (Deaton (1997)).

Table 2.2: Structure of the surveys on the demand side.

Survey	**Centenary Bank Survey**	**Jomayi Survey**	**Slum Survey**	**Bukasa Survey**
1. Potential demand for different types of bank loans	✓	✓	✓	✓
Potential demand for:				
a) long-term mortgage loans	✓	✓		
b) micro finance loans	✓	✓	✓	✓
2. Actual demand for bank loans	✓	✓	✓	✓
a) Funding used to buy land and construct a house?	✓	✓	✓	✓
b) If a bank loans was used for funding the land,				
what type/s of bank loans was it?	✓	✓	✓	✓
c) If a bank loans was used for funding the house,				
what type/s of bank loan was it?	✓	✓	✓	✓
d) If no long-term mortgage was used/will be used,				
what were/are the reasons for that?	✓	✓		
e) In case no short-term mortgage was used/will be used,				
what were/are the reasons for that?		✓	✓	
f) Reasons for not taking any loan at all?		✓	✓	✓
3. Incremental building	✓	✓	✓	
a) If a bank loan was used,				
what was it used for?	✓	✓		
b) How many times were short-term loans applied for?	✓			
c) Time to build incrementally?	✓	✓	✓	
d) Advantages/disadvantages with building incrementally?		✓		
4. Housing as a source of income	✓	✓	✓	✓
a) Were houses/rooms let out?	✓	✓	✓	✓
b) If yes, how many houses/rooms were let out?	✓	✓	✓	✓
c) What was the rent charged for each room?			✓	✓
d) Was it any increase in the number of rooms/houses				
let out since two years ago?	✓		✓	✓
e) Could the rent on the room/house be increased if				
conditions on the room/house you let out was improved?	✓	✓	✓	✓

The population frame often used is a census, which in principle provides a list of households and household members, or at least a list of all dwellings. However, in Uganda there is no up-to-date census, and no adequate census for my surveys. The use of outdated or inaccurate frames is an important source of error in survey estimates. In some countries censuses are also politically sensitive so that various interest groups can be expected to try to interfere with the count. Even when the frame is accurate in itself, its coverage of the population will typically not be complete. I have therefore applied a two-stage sample design, in accordance with Deaton (1997). The two-stage sample design begins with selecting clusters and then selecting respondents. This method generates a sample in which respondents are not randomly distributed over space, but are geographically grouped. This arrangement has a number of advantages. In this way persons with the relevant characteristic have a high probability of being selected. It is also more cost-effective since one can focus on smaller groups of households in specific geographical areas.

The target group in the Jomayi Survey was respondents that owned land and in the Slum Survey and Bukasa Survey the target groups were households that owned their house and also lived there. A simple random sample of the population would not have produced enough respondents to permit an analysis, since many of the households are tenants. Instead my samples are designed so that respondents with relevant characteristics have a high probability of being selected.

Stratification in this way makes it more likely in advance that there will be enough respondents to make it possible to draw conclusions and compare different groups. There are also statistical reasons for not using a simple random sample. The argument is then that the researcher typically knows a lot about the population that will be studied before the study, and can then use this prior information to improve the efficiency of the study and make inferences more reliable (Deaton (1997)).

Below, I describe how the selection of surveys, the structure as well as how selection of respondents was made in each of the surveys.

The Centenary Bank Survey

Reasons for choosing Centenary Bank

There were three main reasons for why it was believed that the Centenary Bank target customers just below the upper part of the real estate pyramid. Firstly, the bank offers only short-term micro-loans. Secondly, the bank is using a more flexible method in screening their clients and enforcing loans compared to the banks offering long-term mortgages as described in 5.4. And thirdly it is one of Uganda's most popular banks. In 2010 and 2011 the bank was voted the best bank in Uganda by customers in the whole country (Centenary Bank (2011)). Centenary Bank has its headquarters in Kampala, and at the time of the survey, Centenary Bank was the sixth largest bank in Uganda. It had the second largest branch network in Uganda, after Stanbic Bank. It was also the second largest indigenous bank, behind Crane Bank. Micro finance customers constitute approximately 90 per cent of the customer base. Centenary Bank is working towards including small and medium enterprise sector. Centenary Bank was funded by six individuals in 1983 as a credit trust, Centenary Rural Development Trust. In 1993 Centenary Bank became a licensed commercial bank (Centenary Bank (2011)). There is a dominance of catholic ownership of the bank, see Table 2.3.

Table 2.3: Ownership of Centenary Bank.

Name of owner	Ownership [%]
Roman Catholic Dioceses of Uganda	39
Uganda Roman Catholic Secretariat	31
Stitching Hivos-Triodos Fonds	18
SIDI	12
Ugandan Individuals	0
Total	100

Source: Centenary Bank (2011)

Structure of the Centenary Bank Survey

The Centenary Bank Survey is divided in four parts, 1) potential demand for long-term mortgages, 2) actual demand for long- term mortgages, 3) incremental building and the fourth part analyses whether housing is a form of capital accumulation, as shown in Table 2.2. Potential demand for long-term mortgage loans is analysed by asking questions related to if respondents would qualify for the main requirements for obtaining a long-term mortgage loan, which are described in chapter 5.4. Therefore they were asked about their age, whether they had sufficient high formal income on a regular basis and if they owned land that was valid as collateral. In order to analyse eventual gender differences in the survey were they were also asked about their gender. When asking about income I was aware that it might be sensitive to respond to such a question. Asking about income is actually considered a sensitive question in all surveys (Deaton (1997)). I expected the question about salary to be particularly sensitive in this survey since the respondents at the time of the survey were applying for a loan, and also because the questionnaire was delivered by an employee of Centenary Bank.

To capture if the income of the respondents is formal or informal, respondents were asked about the frequency of payment. This is accordance with previous surveys that do not classify directly whether the income of a person is formal or informal, but ask about frequency of payment instead. Casual jobs are often paid per hour or day, while regular jobs are paid weekly or monthly. Given that this is a adequate way of classifying jobs, it is obvious that the middle class is much more likely to hold salaried jobs than the poor.

Having a regular job that is well paid may be the most important difference between the middle class and the poor (Banerjee and Duflo (2008)). They were also asked whether they were self employed with their own company or self employed. Being self employed with own company means that you have a legal/formal registered company with audited accounts, *i.e.* the company belongs to the formal economy, while self employed is a more informal definition. I also asked about their education level since education, employment status and salary are interconnected in Uganda (Uganda Bureau of Statistics (2014b)), (Namirembe et al. (2015)), (FinScope (2013)). Another question to estimate their income level was by asking whether they had a public, private or international employer, since I expected that salaries would differ between these different types of employment.

Furthermore, the potential demand for long-term mortgages was analysed by asking if respondents owned land that is valid as collateral for such loan. If they did not have a formal land title they were asked whether they would like to formalize their land ownership. Furthermore, those answering that they would like to formalize their land but had not done so, were asked about reasons for this.

The second part of the survey investigates actual demand for bank loans, especially long-term mortgages. I asked how they had financed their land and house, and whether they had applied for a long-term mortgage loan or planned to do so within the next two years. The reason for giving a two years frame was that I expected to get more realistic answers compared to if I just had asked if they planned to apply for a long-term mortgage loan in the future. Those answering that they had not applied for a long term mortgage, neither planned to do so within three years, were asked to give reasons behind this. In this way it was possible to determine whether they did not take/plan to take a loan because they did not qualify or whether there were other reasons.

In the third part, questions related to incremental building were asked, such as what the loan they were applying for was supposed to be used for, how many times had they applied for short-term loans and how long time they estimated it would take to finish building their house (if they were building a house).

The fourth part analyses whether housing was a source of income among the respondents. This was done by asking the respondents if they were renting out a house/room, if they had increased the number of rooms/houses rented out during the last two years, and if they think they can get a higher rent if they improved the standard of the house/s and room/s rented out.

Selection of respondents in the Centenary Bank Survey

Centenary Bank was at the time of the survey offering two types of short-term micro-finance loans; home improvement loans and salary loans (as described in chapter three). Both types of loans can be used for buying land and for investment in housing. The persons participating in the questionnaire were selected based on what the loan was intended to be used for, and not what kind of loan they were applying for. The reason for not selecting respondents based on what type of loan they were applying for was because Centenary Banks is known for doing everything to help borrowers to pay back their loans. In order to capture the persons perceptions about taking a long-term mortgage loan in any of the banks offering long-term mortgages, the respondents were asked whether they had taken or planned to apply for a long-term mortgage loan within three years. Furthermore, those answering no were asked about reasons for that.

The Centenary Bank Survey was carried out in a bank office in the centre of Kampala. This was done in order to get a mixture of clients, compared to if a branch outside the centre had been selected. The fact that it is one of the largest branches also contributed the possibility of increasing the number of possible respondents. I had permit from the director of the bank to carry out the survey. The survey was delivered by one of the employees in the bank.

The survey was carried out during a period of three and a half weeks in December to January in 2010-2011 and was given to all customers who were seeking any type of financing through the bank for either building a house or buying land in Kampala. During this time period, 107 persons were asked to fill in the questionnaire. The final sample includes 67 persons, which corresponds to a response rate of 63 per cent. Reasons for not answering were divided into three categories; i) 11 persons completely refused without any reason, ii) 6 persons did not return the questionnaire, and iii) 23 persons said that they did not have time to respond.

An identical survey was delivered one year later (December 2011) at the main branch of Centenary Bank, also in the centre of Kampala. The method for choice of respondents was the same as in the first survey as this was a way of validating the first survey. It also turned out that the delivery of the second survey coincided with very high inflation and high interest rates on loans which made people reluctant to borrow from banks, and the confidence in the banks was low. Headline inflation rose rapidly from 5 percent at the beginning of 2011 to a peak of 30.5 percent in October 2011, the highest level recorded since the early 1990s. Monthly inflation began to decline in the second quarter of 2011/12 and abated further in the second half of the financial year, as a result of which annual headline inflation rates fell back to 18.0 percent by June 2012 (Bank of Uganda (2012b)).

Consequently there were not many borrowers available at that time to ask if they wanted to fill in the questionnaire. It however turned out that the few selected respondents were reluctant to answer the questionnaire due to their low confidence in the banking sector at that time. The questionnaire was planned to be delivered by a loan officer that happened to be sick some of the days, so the questionnaire could not be delivered during a continuous time period.

The Jomayi Survey

Reasons for choosing the Jomayi Survey

In order to get more information about a related segment a similar survey was carried out in a residential area called *Namugongo Kira Estate*. The developer of the area is Jomayi Property Consultants. The survey is therefore called the *Jomayi survey.*

An important reason for choosing an area developed by Jomayi is that Jomayi had a collaboration with Centenary Bank. This collaboration aimed at making it easier to get a loan for those buying land from Jomayi. I therefore expected the Jomayi survey to cover partly the same segment as the Centenary Bank survey.

Another reason why I wanted to compare the answers between the surveys is because respondents in the Centenary Bank Survey were at the time of the survey constructing their house, while respondents in the Jomayi Survey had finished, or almost finished, construction of their house.

A third reason for carrying out the Jomayi surve was because I believed that the respondents in that survey could be part of the long-term mortgage market, or that they were more likely to be close to access to a long-term mortgage loan.

Jomayi Property Consultants is one of the largest land developer in Uganda and have developed many estates around Kampala. The Namugongo Kira Estate was selected due to three reasons. First, because the developer Jomayi Property Consultants had developed the area. The second reason for choosing the Namugongo Kira Estate is because Jomayi Property Consultants started to develop it in 2005, which implies that most plots had been sold at the time of the survey and many people were living in their houses, or renting out their houses, since their houses were believed to be finished or almost finished.

The third reason is because the Namugongo Kira Estate was considered to be a well developed area since infrastructure was better than in other areas developed by Jomayi. The fact that it is a well developed area increased the inhabitants chance to qualify for a mortgage loan since mortgage providers require land in a better developed area.

Structure of the Jomayi Survey

In order to be able to compare the results between the Jomayi Survey and the Centenary Bank Survey, the surveys are similar in structure and content, as shown in the Table 2.2. As also is shown in this table, some issues are investigated more in detail in the Jomayi Survey than in the Centenary Bank Survey, as will be explained below.

The potential demand for long-term mortgages was first analysed. This was as above done by asking questions about whether respondents fulfilled the main requirements for obtaining a long-term mortgage loan, *i.e.* did they have a sufficient high formal income on a regular basis and formal land ownership. As in the Centenary Bank Survey, indirect questions were asked to estimate their level of income and whether it was formal and/or informal. Unlike in the Centenary Bank Survey, I asked directly about their income level. I was aware that it could be a sensitive to ask about salary (as described in the Centenary Bank Survey). Therefore that question was placed at the end of the questionnaire, in order to reduce the risk that in case they found the salary question too intruding they wouldn't respond to the rest of the questionnaire. There were also questions about whether they owned land that would be valid as collateral for a long-term mortgage loan; under what land tenure their land falled, whether they had a formal land title.

Secondly, the actual demand for bank loans was analysed. I first asked about what financial sources they had used for buying land and constructing the house. Since I didn't know whether those who answered the Jomayi Survey had taken any loan at all for buying the land and constructing the house, I investigated the actual demand for different types of bank loans, with emphasis on long-term mortgage loans. Based on the results of the Centenary Bank Survey, some questions on actual demand for loans in the Jomayi Survey were more elaborated. The willingness to use or not use land as collateral and the reasons behind that as well as the reasons for not taking any loans at all, was for example investigated more in detail.

The third part of the questionnaire consisted of questions about incremental building. The questions were very similar to the ones in the Centenary Bank Survey, such as in case they had taken a bank loan what was it used for, how long time did it take until they could move in, and advantages/disadvantages with building incrementally.

The fourth part of the questionnaire investigated if housing was a source of income by renting out house/s or room/s.

Selection of respondents in the Jomayi Survey

The Jomayi Survey was delivered to those that owned land and eventually a house/s in the selected area *Namugongo Kira Estate*, *i.e.* the questionnaire was not targeting those that were renting a house. I therefore needed information about on which plots houses had been constructed and if the owner was living in the house. However, there is no such information. Many people in the selected area had bought land but not constructed the house yet and many houses are semi-finished with no one living there. Many houses were also rented out.

The Jomayi Survey was delivered in four different ways in November to January 2011-2012. I started to deliver questionnaires by knocking on the doors in the blocks close to the entrance of the estate where there were relatively many finished houses.

Since I expected that the respondents were working regular hours the questionnaire was delivered on week-ends and on evenings during the week. But I was warned that it might be dangerous to walk around when it was dark, so the only suitable time to deliver the questionnaire was on day-time during week-ends. However, it turned out that many were working on Saturdays and going to church on Sundays. Furthermore, houses were dispersed even in the chosen blocks so it took time to visit many houses. Also the strong sun during day-time made it hard to move around in the area. Many houses did not have a bell. I therefore had to knock on the gate of the house. It often took a long time until someone came and opened.

After a while I realised that this way of delivering questionnaires was inefficient. I could have contracted someone to deliver the questionnaires, but it would have been equally inefficient. Only six questionnaires were collected by going from house to house and knock on the door. It was however only one household that refused to answer the questionnaire.

A second way of collecting questionnaires was by telephone. In some houses when the house owner was not at home I got his or her phone number from the person opening the door. I later called the owner of the house and asked the questions in the questionnaire. In total there were six questionnaires filled in this way. All the persons I called were willing to answer the questionnaire by phone.

The third way to deliver the questionnaire was at a meeting among house and land-owners in the area. The meeting was taking place on a Sunday when I happened to be in the area. At the meeting they were discussing how to improve the roads in the area and reduce the insecurity in the area because there were unfinished houses where strangers could hide. I got permission from the chairman of the meeting to deliver the questionnaire to the participants of the meeting when the meeting was over. 44 questionnaires were collected in this way.

The fourth way of collecting questionnaires was by leaving them at a Supermarket at the main entrance of the estate of Namugongo Kira Estate. The fact that the questionnaire was left at the main entrance of the estate means that all people entering the estate passed this Supermarket. It was also the largest supermarket in the area which made it suitable for my purpose. I left 15 questionnaires at the desk where people can leave their bags before doing the shopping. After four weeks the questionnaires were picked up by Susan Itamba at the Supermarket. Seven of the 15 questionnaires were returned.

In sum, the 63 filled in questionnaires were collected by: i) knocking door (6 questionnaires), ii) by telephone (6 questionnaires), iii) at a meeting for house- and landowners in the area (44 questionnaires), and iv) at the Supermarket Hebron that is situated at the main entrance of the estate (7 questionnaires).

I cross-checked the answers from the four different ways of collecting the data and I found no relevant difference between the answers. I have therefore treated them as one group when the results are presented. The fact that the answers from the different subgroups did not differ is in line with the argument in Deaton (1997) who suggested that those living in the same cluster, *i.e.* area, are usually more similar to each other in behaviour and characteristics than households living in different clusters.

The data in the Jumayi survey was collected by myself in November 2011. The first days when knocking doors in the area Susan Itamba accompanied me. I do not think that the fact that I collected the questionnaires affected the answers since the questions were about how they had acted in the past and the respondents were well educated and knew that I was a researcher.

The Slum Survey

Reasons for choosing the Slum Survey

In order to go further down in the real estate pyramid, where the numerically largest group of lower income households were assumed to be situated, the so called

Slum Survey was carried out. The Slum Survey represents five informal settlements called Mbuya, Kinawataka, Bwaise, Najjanankumbi and Mutungo. The reason for choosing these informal areas slightly out of the city was because they are areas where it is more likely to be owners occupying the houses that therefore are called muzigos, *i.e.* the houses are not used by tenants. Furthermore the level of income was considered to be higher in these areas than in the area covered by the next survey carried out in the Bukasa slum. The information about the characteristics of the selected areas come from interviews with people working in the land sector in Kampala.

Structure of the Slum Survey

The Slum-Survey is divided in four parts, 1) potential demand for micro-finance loans, 2) actual demand for micro-loans, 3) incremental building and 4) whether housing is a form of capital accumulation, as shown in Table 2.2.

The potential demand for micro-finance loans was first investigated by asking questions about whether the respondents would qualify for a micro-loan either secured on unsecured. I therefore asked questions about their income and land ownership. The analysis of the potential demand in the Slum Survey differs from the Centenary Bank Survey and Jomayi Survey in the sense that I did not expect respondents in Slum Survey to have a formal regular income and formal land ownership to the same extent as in the two previous surveys. I was also aware that people may not have the right knowledge about what type of land tenure they had and if they had registered land titles. Therefore the questions related to land ownership were cross checked through various other questions. I am also interpreting the answers with care since there may be some questions that could have been misunderstood due to for example lack of knowledge among respondents.

In the third part, questions related to incremental building were asked, such as how long time the respondents saved money before buying their land, whether they paid for the land in instalments to the seller and how long time it took to build the house. The fourth part analyses whether housing is a source of income by letting out room/s. If they answered affirmatively to this question they were asked about the number of rooms rented out, the rent charged per room, whether renting out rooms was their main source of income, whether they lived at the same place as they were letting out room/s and if they thought they could get a higher rent if they improved the conditions of the room/s they were letting out.

Selection of respondents in the Slum Survey

Respondents were selected based on if they owned the house and lived in it, *i.e.* landlords not living in the area were not selected. Questionnaires were delivered during day-time, both during the week and during week-ends.

The answers were collected by knocking door in these different slum areas and asking if the person was the owner of the house. Making a random selection of respondents in these areas would have required information on all houses and which of them that were occupied by the owners of the houses. However, there is no such information available. What I could have done was to ask the selected chief of the areas to help me find houses where the house-owners are living. However, there is a risk that these persons are corrupt so it is very uncertain if it would have been an effective way of working (International Monetary Fund (2005)).

It is rare for Ugandan middle class and foreigners to visit a slum area in Kampala. Therefore, I did not deliver the questionnaire myself because I assumed that I would symbolise possible monetary rewards and therefore possible get biased answers to the questions. Furthermore, many people in this area only speaks and understands local languages. The questionnaires were therefore delivered by two native women that were living in a slum area and thus understand how to move around there, and also speak the native languages. However, it was even difficult for them to get people answering the questionnaire. Difficulties encountered by the women delivering the questionnaire were for example that some persons wanted to know if they would benefit from getting a house if they participated in the survey, others wanted something in return like for example sugar, some asked how the women delivering the survey benefited from delivering the survey, and some were rude and didn't give the interviewers any opportunity to ask them if they wanted to answer the questionnaire.

In total 92 persons answered the questionnaire. Respondents were asked about what kind of house they had, because I expected that there would be different patterns of answers when considering the different house-types. However, that showed not to be the case. Consequently, different house types are not taken into account in the analysis. This also holds for the Bukasa Slum Survey, that is presented below.

The Bukasa Survey

Reasons for choosing the Bukasa Survey

The so called *Bukasa Survey* covers an informal settlement in an area called Bukasa. The Bukasa slum was selected because it is an informal settlement that is considered to have a lower income level than the informal settlements in the Slum Survey. However, the living standard in Bukasa is not at the very bottom of the real estate pyramid presented in the introduction to the thesis, 1.2. An example of a slum area at the bottom of the real estate pyramid is the nearby Namuwongo slum. Bukasa is located close to Muyenga, which is considered an area for the rich. The Bukasa slum is situated on a slope where the weather conditions are not as good as up-hill where luxury houses typically are situated.

Structure of the Bukasa Survey

The structure of this questionnaire is similar to the previous Slum Survey. However, questions are in this case a bit more general since I expected respondents not to be well educated regarding different types of land tenure and bank loans. In contrast to the previous surveys, no questions related to incremental building were raised.

Selection of respondents in the Bukasa Survey
In the Bukasa Slum Survey respondents were selected based on if they owned the house where there were living, *i.e.* in the same way as in the Slum Survey. The questionnaire was carried out in the same way and was delivered by the same women that delivered the Slum Survey.

2.2 Analysis of data

The third and most time consuming phase of the work with the thesis consisted in compiling and analyzing the data gathered. This third phase is, naturally, a continuing process from the start of the thesis until the final dissertation.

A theoretical framework has been used as a tool for structuring the thesis (Hansson (2007)). With help from the theory, and also from previous research, I aim to explain my empirical observations and to see to what extent different theories are consistent with my data. However, this does not mean that the theory first was studied and later tested. In line with Hansson (2007) working with theory and analysis of collected data is a parallel process, where new relevant theories can be identified and developed when analysing the empirical data.

2.3 Reliability and validity

Reliability and validity are two concepts that describe the quality of research. If the results of a survey can be reproduced with a similar method then the research instrument is said to be reliable (Seale (1999)). Embodied in this definition is the importance of replicability or repeatability. To evaluate reliability in qualitative research, examination of the trustworthiness of the procedures used is crucial. There are differences in opinion concerning the relevance of the traditional concept of reliability in qualitative research. Stenbacka (2001) argues that the concept of reliability is irrelevant in qualitative research, and that more general evaluation of a study in terms of "good or not" should be done. There are others, for example Patton (2002), that argue that validity and reliability are important to consider for a qualitative researcher, and on this point I agree with Patton.

The concept of validity refers to the relation between what was intended to be measured and what actually is measured. Validity is not a single fixed concept and in qualitative research validity has been discussed in more general terms such as quality, rigor, and trustworthiness (Stenbacka (2001)), (Davies and Dodd (2002)), (Lincoln and Guba (1985)).

Quality of a research is also related to the generalizability of the result (Stenbacka (2001)) even if it has been argued (Maxwell (1992)) that the degree to which research can be generalizable is a factor that distinguishes quantitative and qualitative research approaches. Case studies like the one carried out in this study directly concern a specific country and or even a specific area and it is always a matter of judgement whether similar results can be expected in *e.g.* other Sub-Saharan countries or even in other areas in Kampala.

The supply side of the mortgage market
The reliability of the study on the supply side may have been negatively influenced by several factors. When using non-standardized open questions, the risk of interviewer effect is always prevalent. This effect, caused by that the attitude of the interviewer leads to the interviewer selecting the information wished, and misinterpreting answers. These negative effects can be reduced by performing the interviews in privacy and keeping a neutral atmosphere (Rosengren and Arvidson (2002)). This can also reduce the risk of interviewees giving the information that they think the interviewer wants to hear. The interviews were, with a few exceptions, taking place at the interviewees' office or in another calm place. Exceptions include interviews with bank officials. Those interviews were conducted at their desk in the bank, but always when there where no customers waiting to be attended. Therefore, interviews with bank officials were booked in advance. No others were present but me and the interviewees, except for the interview at the Ministry of Finance, Planning and Economic Development that took place in a office that was shared by several persons.

It is difficult for the interviewer not to affect the respondent and therefore the answers given. It can also be difficult to receive honest answers to questions perceived by the respondent as sensitive (Wiedersheim-Paul (1991)). To increase the reliability and also the validity of a study, the following criteria concerning the informants should be met: The interviewees should have first-hand knowledge, be credible, impartial, and be willing to respond (Patton (2002)). I consider these criteria to be sufficiently met, and found the interviewees open and frank.

Secondary documentation
Regarding the information gathered from written documents, I am aware that there is a risk that the information in the documents given is biased, for example from documents from the government. Nonetheless, I still consider them important in order to form an understanding of the ministries' work, their view on land and housing finance development and their goals for the future.

Questionnaires
To make sure that the questionnaires were reliable I was making sure that the the surveys had questions that measured a single dimension only. To avoid misunderstandings of the questions, and that the appropriate options in multiple choice questions were included, I tested the questionnaires before delivering them. When questionnaires where not delivered by myself I frequently followed up the activities of the persons delivering them to see if there were any problems.

– *Centenary Bank Survey*

The selection of respondents in the Centenary Bank Survey was based on whether the respondents were applying for a loan that they were going to use for investment and housing. I could not control whether they really were going to use the loan for that purpose. The results from the Centenary Bank Survey have been confirmed by different stakeholders during my second field trip to Kampala, for example when I was giving lectures at Makarere University at the department of Geomatics and Land Management, and also to the manager of Centenary Bank HQ as well as representatives of banks providing long-term mortgages.

– *Jomayi Survey*

The selection of respondents in the Jomayi Survey may have some weaknesses. It is possible that some respondents had not moved into their semi-finished houses because they couldn't afford to finish their houses, *i.e.* they were representing another income class than those that have finished their houses and were living in the houses. But it can also be the case that those building slowly did so because they didn't need the house and were building for renting out in the future.

Those participating in the mentioned meeting might be men with a higher education than the average of the area and thus also a higher income. I did not consider gender issues in the survey. It is also possible that some of them do not live in the area. However, the fact that they own a property in the area is the most important factor for being included in the survey.

People doing their shopping in the supermarket might also be the more wealthy residents in the area, and I had no control over how people in the Supermarket influenced the clients on how to respond to the questionnaire.

– *Slum Survey and Bukasa Survey*

The possible bias in the Slum Survey and Bukasa Survey are similar since they were collected the same way and the context is rather similar in both surveys. The questionnaires were collected during day time. I am aware that it is possible that many people were not at home during day time, especially men. However, many people in this kind of informal settlements are not working regularly to the same extent as people living in formal settlements. It would also have been difficult to deliver the questionnaires after dark, due to malaria risk and security reasons. Since the survey was targeting owners of the land and house I did consider women as owners if they were living with their husband, even though the man/husband often is the official owner of the house and land. However, the fact that the women answered the questionnaire might have led to less accurate answers about land ownership since it is possible that the men have better knowledge about this.

Chapter 3

Theories and earlier literature

In this chapter I will present a number of theories that are important for understanding the workings of the financial market, with a focus on the usage of housing loans, especially long-term mortgages loans, for financing land and residential houses. Earlier literature that evaluates these theories will also be presented.

How banks and institutions should be regulated and financial innovations should be managed are beyond the scope of this study. The same holds for issues related to regional financial cooperation and integration.

The chapter begins with a background on theories about financial development. I further develop what institutional framework is needed for financial intermediaries when providing housing loans, both formal and informal mechanisms are considered. The framework is a supply-side framework and assumes that demand for housing loans is not a constraint. The framework will serve as a background for understanding the empirical findings on the supply and demand of housing credits, especially mortgages, in the subsequent chapters.

3.1 The framework of financial repression

Interventions in financial markets in the 1950s and 1960s were based on the assumption that low income levels in third world countries limit the potential of savings. Therefore, price incentives would not have a substantial impact on the amount of savings. Instead, it was seen as the task for the government to increase the savings in a country in order to increase the amount of funds available for lending. Credit was seen as an important input for production and the unavailability of credit as a core reason for slow growth.

The market-clearing lending rates were considered to be too high for small borrowers and were therefore seen as a constraint on the capital investments needed to increase productivity and economic growth. By imposing interest rate ceilings, the government could ensure low interest rates, which would increase the incentive to invest and in turn accelerate the adoption of improved technology and increase production. The problem of excess demand created by interest rate ceilings was addressed through credit rationing. Credit programmes implemented by governments directed available credit to the sectors seen as important for the development of the economy.

A theoretical framework of financial repression, building on the work of Schumpeter, evolved in the 1970s as a critique against the interventionist policies implemented in the 1950s and 1960s in developing countries. McKinnon (1973) and Shaw (1973) suggested that developing countries suffered from *financial repression*. With financial repression they referred to that a number of government regulations, laws, and other non-market restrictions prevented the financial intermediaries of an economy from functioning efficiently (McKinnon (1973)), (Shaw (1973)).

The main message in their critique is that regulated nominal interest rates result in low and even negative real interest rates, which contribute to reduced efficiency in financial intermediation. This in turn causes fragmented financial markets, dependence on foreign aid and poor economic growth. An economy was defined as financially repressed when there are distortions in financial prices including interest rates and foreign exchange rates. According to McKinnon and Shaw, governments create these distortions. Interest rate ceilings, high reserve requirements, directed credit policies and discriminatory taxation of financial intermediaries are examples of such interventionist policies (Fry (1995)). McKinnon and Shaw argued that the strategy of financial repression had stopped or at least gravely retarded the development process in the countries that practised these policies. They emphasized the role of finance in economic development and argued that a sound financial sector can act as an engine of economic development.

The McKinnon-Shaw theoretical framework is based on two critical assumptions. The first is that individuals respond to the rewards related to holding financial assets, conditional on the risk of holding these assets (McKinnon (1973)). This implies that price incentives do affect the amount of savings, and savings are therefore seen as a positive function of the real deposit rate. This assumption is in clear contrast to the underlying thoughts of the interventionist policies of the 1950s and 1960s. McKinnon and Shaw argued that even poor people can save, and that there is a saving potential also in low income countries in the third world. The second assumption is that the level of domestic investment is limited by the amount of domestic savings (Fry (1995)).

The policy prescription of the McKinnon-Shaw framework is to embark on a strategy of financial deepening, by reducing inflation if it is high and by taking away interest ceilings and the direction of credit (McKinnon (1973)). Financial depth is a measure of the size of financial institutions and financial markets in a country. Financial depth measures the proportion of financial assets in relation to GDP. A deep financial system means that the financial sector is large relative to the overall size of the economy, and is a system that provides the economy with credit and other financial services (Rosengren (2003)).

Liberalisation of interest rates and a reduction in inflation should result in an increase in real interest rates, which would encourage people to shift their savings in for example gold and real estate to financial assets. This would increase the liquidity in the economy and the amount saved with banks. The economy should therefore deepen. The increase in financial savings would make more funds available for lending, which in turn would raise the quantity of investment. The efficiency in the allocation of capital should also improve following the liberalisation of interest rates and the ceasing of direction of credit. This would increase the quality of the investments made as a result of credits being allocated according to expected return. The theories of financial repression therefore meant that the efficiency of financial intermediation should increase following financial liberalisation.

Competition among financial intermediaries would also increase following a market deregulation. More competition in the financial sector would lower the margin between the deposit rate of interest (paid to savers) and the lending rate (paid by borrowers). Therefore the spread between the two rates would fall and to a higher extent reflect competitive intermediation costs.

Financial liberalisation was therefore expected to improve efficiency as competition between financial institutions increases, allowing rates to be set at market clearing levels.

When the policies of credit direction are removed and the funds available for lending increase, and the accessibility of credit for the private sector should increase and credit would also be made available for previously marginalized groups in the informal economy. Mc Kinnon acknowledges that it can be difficult and costly for banks to get information about customers in the informal economy. However, when interest rates can be set freely, the higher costs would drive up the equilibrium interest rates for these customers so that it would still be profitable for the banks to serve them. Liberalisation of interest rates would therefore reduce the need of informal finance and contribute to eliminate the segmentation of the financial markets.

Alternative views on the financial repression theory

The McKinnon-Shaw hypothesis is now over forty years old. Since then and until now, the hypothesis has been quite influential but there are still conflicting views on the effects of financial liberalisation. Several factors, both theoretical and institutional may have contributed to the inability to resolve this debate.

Development of the financial repression theories by Kapur (1976), Galbis (1977), Mathieson(1980), and Fry, M. (1988) found considerable support for the financial repression hypothesis in developing countries. However, the coexistence of formal and informal credit markets persists in developing countries, which have been difficult to explain by the financial repression theory.

Savings and growth rates

Initially, the research on McKinnon-Shaws theories focused on the effects of low or negative real interest rates on savings and investment levels in developing countries. Although there is little doubt that financial savings lead to increased output, there is considerable debate on the effects of financial market development on savings. For example Greene and Villanueva (1991) find a negative relationship between real interest rates and investment and Gelb (1989) found a positive correlation between growth and the average real deposit rate in 34 developing countries. Gelb concluded that higher real deposit rates had their major impact on growth through increased investment efficiency rather than through increases in the quantity of savings and investment. Focusing on 21 African countries, E. Seck and Y El Nil investigated the correlation between real interest rates and growth and between real interest rates and investment during the period 1974-89. Their results showed a positive correlation between real deposit rates and financial savings. Nevertheless, most studies have not found any correlation between real interest rates and aggregate savings. For example Wijnbergen (1983), and Ostry and Reinhart (1995) who suggest that if there are informal credit markets, an increase in the real interest rate will not necessarily raise the total rate of savings as there can be a portfolio reallocation away from the informal sector.

In 1991 McKinnon actually changed his view about the link between real interest rates and higher aggregated savings, as measured in the GNP accounts, and no longer believed that savings respond strongly to higher real interest rates (McKinnon (1991)).

Jappelli and Pagano (1994) applied a three-period overlapping generations model suggesting that binding liquidity constraints on consumer credit can increase aggregate savings rates, and that among mainly the OECD countries, less-developed mortgage markets are associated with higher savings.

Bandiera, Caprio, Honohan, and Schiantarelli Bandiera et al. (2000) studied the financial liberalization on the basis of eight different components: interest rates, reserve requirements, directed credit; bank ownership, prudential regulation, securities markets deregulation, and capital account liberalization. Their data cover the years 1970-94 for Chile, Ghana, Indonesia, Korea, Malaysia, Mexico, Turkey and Zimbabwe. They find no evidence of any positive effect of the real interest rate on savings. Indeed in most cases the relationship is negative, and significantly so in the cases of Ghana and Indonesia. Furthermore, the effects of the financial liberalization index on saving are mixed: negative and significant in Korea and Mexico, positive and significant in Turkey and Ghana. The long run impact of liberalization is, however, sizeable, but in different directions. Corresponding to the realized change in the index, the estimated model indicates a permanent decline in the saving rate of 12 percent and 6 per cent in Korea and Mexico, and a rise of 13 per cent and 6 per cent in Turkey and Ghana.

Other factors influencing the amount of savings are risk and liquidity. When it comes to risk McKinnon (1973) emphasizes the anticipation of inflation rate as one risk factor and argues that low and stable inflation is a prerequisite for financial development. Unanticipated inflation is likely to lead to portfolio shifts away from bank savings. The liberalization of interest rates and reduction of inflation could result in an increase in real interest rates, which should encourage people to shift their savings from inflation hedges, such as gold and real estate, to financial assets. This would increase the liquidity in the economy and savings in banks. The economy should thereby deepen (McKinnon (1973)).

Later research has found that a major determinant of financial savings in developing countries is the accessibility to financial services Fletschner and Kenney (2011). High real interest rates then do not matter if a large part of the population does not have access to financial services. Furthermore, even when people have access to financial services there are other factors that affect the willingness to save in banks. While borrowers have to show to the lenders that they can save, the organization must also show the lender that it can handle savings deposits in a safe way. As depositors will have a financial stake in the organization through their savings, they will have an interest in monitoring it. Savings can therefore force an organization to be more responsive to the needs of their clients (Rutherford (2001)). The importance of borrowers placing trust in the savings institution is also stressed by Körberg (1987). He discusses the importance of the depositors' ability to control the bank's administration and thereby the security of their deposits. Therefore it is important to make the bank's routines as transparent as possible in order to prevent corruption and other possibilities to cheat depositors or borrowers (Körberg (1987)).

Financial development and economic growth

The correlation between financial development and economic growth has been examined in a number of studies. A large body of research shows that the depth of the financial sector has a positive effect on economic growth. For example, King and Levine (1993) use data for 80 countries over the period 1960-1989. However, some studies did not find a strong relationship between financial sector development and growth, for example (Favara (2003)). Financial development has an important role in endogenous growth theory, through its impact on the levels of capital accumulation and savings (Romer (1986)) or on technological innovation (Romer (1990)), (Grossman and Jovanic (1990)). Much research have addressed the issue of causality and there is a growing agreement about the importance of financial sector development for economic growth (Levine et al. (2000)), (Levine (August 2005)), (Jalilan and Kirkpatrick (2005)). Beck et al. (2000a) have examined the relationship between financial intermediary development and different sources of growth. The linkage between financial sector development and capital accumulation or private savings is found not to be robust to alternative specifications, but they find a robust and positive relation between financial development indicators and both economic growth and productivity growth.

There has also been a debate on the growth-poverty relation: if and to what extent economic growth leads to poverty reduction. Research show a strong correlation between financial depth, long-term economic growth and poverty reduction (Levine (June 1997)). Available empirical research from cross-country analysis show that economic growth and poverty reduction are strongly and positively correlated and that economic growth reduces poverty incidence (Dollar and Kraay (2002)). Ravallion and Chen (1997) show that a 10 per cent increase in the mean standard of living leads to an average reduction of 31 per cent in the proportion of the population living below the poverty line Research also shows that the positive effect of financial sector deepening on economic growth is greater in developing countries than in developed countries (Calderon and Liu (2003)), (Jalilan and Kirkpatrick (2005)).

There is, however, no consensus on how to sequence financial sector development in developing countries, especially the role of domestic banks and capital markets and the role of small and large banks (Banerjee and Duflo (2010)). Levine (2004) argues that the structure of the financial institutions and the financial markets in developed countries are not transferable to developing countries and that the most suitable form and function of financial institutions differ depending on the legal and political system in the country as well as the economic activities in the country. However, he stresses that the important issue is what the financial system does, and what financial services it provides to the rest of the economy, and not whether it has big or small banks, micro-finance institutions or securities markets. Rajan and Zingales (1998) agree with Levine on the importance of considering the local context to achieve a functioning financial system. He however argues that small banks have better local knowledge and that state owned banks often are a barrier for the development of small banks.

Evidence from country-specific studies of the impact of microfinance on poverty is mixed. An evaluation of the Grameen Bank is one of the first attempts to evaluate microfinance and it found a positive impact where the bank worked compared to where it not worked Pitt and Khandeker (1998). Quartey (2008), on the other hand, finds that financial sector development has a positive impact on poverty reduction in Ghana, but financial intermediaries have not channelled savings to the so called pro-poor sectors due to high default rates, lack of collateral and lack of good business ideas. Also, measuring the impact of micro-finance is a challenge, and even if it works in a short run perspective it can be difficult to know the long-term impacts, see for example (Kaboski and Townsend (2012)), (Morduch (1999)), (Banerjee (2013)).

Financial development and risks

Another aspect is that a more developed financial system can lead to more opportunities for speculation and thereby increase volatility and the risk for price bubbles followed by a financial crisis (Easterley, W. and Islam, R. and Stiglitz, J. (2000)).

Financial liberalization has therefore been linked to macroeconomic instability. Experience from Latin America suggests that the financial reforms carried out during the 1970s, with the purpose to end financial repression, led to financial crises, massive government interventions, nationalization of private institutions and low domestic saving (Diaz-Alejandro (1985)). Weakening the financial sector is argued to be a consequence of focus on macroeconomic policies that primerly focused on inflation and not other major sources of macro-instability such as a weak financial sector (Stiglitz (1993)). Demirguc-Kunt and Detriagiache (1998), on the other hand, suggest that the likelihood of a crisis following liberalization decreases with the level of institutional development in the country. Roe and Siegel (2008) stress the role of political instability as a factor that limits financial sector development, and more recent research has studied the potentially destabilizing effects of financial liberalization on financial markets. There is a general agreement that growth requires macroeconomic stability. There are however also researchers that argue that the financial sector reduce risks through risk sharing and diversification, and thereby reduces economic shocks and therefore contribute to a more stable macroeconomic environment that supports growth.

3.2 Imperfect information and new institutional economics

Credit markets have also been analysed by researchers influenced by new institutional economics. Even though this group of economists believes in the importance of markets, they emphasize that perfect markets seldom exist in reality (North (1990)), (Williamson (1985)). There is also growing empirical research suggesting that macroeconomic stability and financial liberalization are not sufficient conditions for enhancing financial sector deepening and that they therefore should be accompanied by other institutional reforms (Tressel and Detriagiache (2008)), (Demetriades and Fielding (2009)), (Stiglitz (1993)).

Therefore regulations are needed to oversee the financial markets to make them function better and also to improve the performance of the economy and to make sure that private incentives are better aligned with social returns (Stiglitz (2012)). Gillis et al. (1996) state that the main difference between mainstream economics and development economic analysis is that the former often takes a well-functioning institutional context as given, whereas the latter is concerned with how institutions emerge and facilitate economic development. Hence, the challenges to establish a functioning financial sector in developing countries are greater than in developed countries due to their weaker institutional base. North (1990) studies the nature of institutions, and the consequences of institutions for economic performance, in a historical perspective including the development of financial markets. A definition of institutions taken from North is the following (North (1990), p. 3):

> *"Institutions are the rules of the game in a society, or more formally, are the humanly devised constraints that shape human interaction. In consequence, they structure incentives in human exchange, whether political, social, or economic."*

Institutional economists, such as for example Coase (1960), North (1993), criticize the conventional neo-classical model for failing to include the role of transaction costs in economic exchange and that the model sees the market as an abstract realm of impersonal economic exchange with perfect information, free entry and exit etc. Instead, institutional economics sees information on a market as incomplete. Transactions are costly since they require finding information, negotiating, monitoring and concluding contracts. Markets are therefore viewed as broad institutional structures and arrangements that support and govern the process of exchange with the aim of minimizing transaction costs Harris et al. (1997), (Williamson (1985)), (Williamson (1987)), (North (1991)), (North (1990)), (Hayek (1982)), (Stiglitz (1993)). The standard theories of efficiency of competitive markets are based on that there is perfect information. However, economies with imperfect information are not pareto efficient and there are feasible government interventions that can make all individuals better off by improving access to information that is a public good. The essential role of financial markets is to obtain and process information. Information is a public good, *i.e.* consumption of one individual does not detract that from another individual and it is also costly, if possible, to exclude anyone from the public good. Furthermore, information can be viewed as a fixed cost because it does not need to increase with the amount of lending and they therefore differs from markets for conventional goods.

Transactions in the less developed credit market are often based on personal relations, *i.e.* the lenders limit their lending to people they know, and this can lead to negative consequences (Banerjee (2001)) as it: *i)* It pushes capital to borrowers that are well connected with the lenders and leaves out potential borrowers that are not connected with the lender but may have the same productivity, *ii)* personal connections lead to more local lending since the lender must know and trust their borrowers. This also increases the cost of intermediation and thus the opportunity cost of capital. *iii)* Lenders have to limit their lending, which may lead to inefficiency in the use of capital and skills. *iv)* When there is a competitive environment, this can lead to a situation with lenders in effect subsidizing new borrowers in order to later take profit from those that remain long-term clients.

Stiglitz (1993) emphasizes that financial markets are different from other markets and market failures are more common in these markets. One very important function of financial institutions is to select projects and to monitor the use of the funds in a market with incomplete information. These are also important activities that goes under the heading transaction costs. In developing countries, information asymmetries are more extensive than in industrialized countries. Information asymmetry means that one party, the lender or the borrower, has more or better information than the other. Borrowers seeking financing normally have more information about their projects than their banks. The features in credit markets such as low defaults rates in the informal economy, high and highly variable interest rates and credit limits that increase with wealth suggest that contracting in credit markets is highly imperfect and that screening and monitoring are very important in order to assess who will be able to repay the loan and also to determine who would have the right incentives to do so (Banerjee (2001)), (Ghosh et al. (2000)), (Stiglitz (1989)).

The standard theory of interest rates decomposes the large differences in interest rates between different borrowers into cost of default, opportunity costs, transaction costs and monopoly rents. Banerjee (2001) argues that none of these factors alone can be seen as a causal factor, instead all of them are jointly determining the high interest rates and the context determines which of them is more of a casual factor. He further stresses that there are so many contexts where transactions costs are large and he therefore questions the standard neoclassical prediction that in market equilibrium the marginal unit of capital in every firm should earn the same return.

The differences in interest rates can then partly be explained by the cost of screening and monitoring in order to make sure that the loan get repaid in the presence of adverse selection and moral hazard problems. These models focus on incentive problems and how the interest rate apart from being a price mechanism can also serve as a direct screening mechanism. The models also show that high interest rates tend to make borrowers more likely to misbehave. This in turn tends to raise the interest rate as defaults become more common or because there is a need to monitor the borrowers more, as will be explained more in detail in the following sections.

The adverse selection model

The adverse selection model of credit markets originates with a paper by Stiglitz and Weiss (1981). The model rests on two main assumptions, i) that lenders cannot distinguish between borrowers of different degrees of risk, and ii) that loan contracts are subject to limited liability (*i.e.* if a project returns are less than debt obligations, the borrowers bears no responsibility to pay out of pocket). The model is restricted to *involuntary* default, *i.e.* it assumes that borrowers repay loans when they have the means to do so.

Stiglitz and Weiss argue that higher loan rates increase the adverse incentive problem as firms then are tempted to switch to more risky projects. Since interest rates therefore serve a dual function, as a price but also as a way of indirect screening (an incentive mechanism), the equilibrium interest rates may not rise even if there are borrowers that are prepared to pay higher interest rate. A rise in the interest rate would in the model increase the risk for the lender, and this holds back interest rate increases. When a lender charges a higher interest rate, firms are induced to undertake projects with a lower probability of success, but with a higher pay-off in the case of success. For a risk neutral firm that is indifferent between projects with different risk, an increase in the interest rate will result in the firm preferring the riskier project with a higher return if successful. Thus the borrower will act in contradiction to the interests of the lender, and the default rate will increase when the interest rate rises (Stiglitz and Weiss (1981)). Stiglitz and Weiss conclude that high interest rates can make projects with low mean returns infeasible, but leave the risky projects relatively unaffected. Good borrowers are driven out by bad.

The Moral Hazard model

If the distribution of returns from the investment is affected by the borrower's actions, then observability and monitoring will be a problem even for lenders who live in close proximity and can lead to *voluntary default.* There is a classical moral hazard problem, when the borrower can reduce their efforts for making the project successful and make the lender carry a large part of the reduced profit that follow from lower efforts. The borrower may also in different ways try to cheat the lender, *e.g.* by pretending that profits are lower than they are.

The result of adverse selection and moral hazard: Credit Rationing
A result of adverse selection and moral hazard is that at the interest rate which is optimal for the bank, in the sense that it maximizes the bank's expected profits, demand for credit exceeds supply. At the equilibrium interest rate the market does not clear. The banks ration credit. Market equilibrium may therefore be characterized, like in the financial repression model, by credit rationing and market fragmentation even without interest rate ceilings and directed credit. Credit rationing is in this context defined as a situation when some borrowers will not be able to borrow even if they are prepared to pay the interest rate that the banks demand. Stiglitz and Weiss (1981) therefore conclude that there is no presumption that the market equilibrium allocates credit to those with the highest expected return on investments.

Stiglitz and Weiss consider briefly the role of collateral in their credit rationing models (Wette (1983)). They conclude that lenders may choose not to use collateral requirements as a rationing device. An increase in collateral requirements, like an increase in the interest rate, potentially leads to a decrease in the lender's expected return on loans as a result of adverse incentive and selection effects. Stiglitz and Weiss explain that adverse selection effects can result from increases in the demand for collateral when borrowers are risk averse. An increase in collateral has thus two effects on the market for loans: those individuals that remain in the market will choose to undertake less-risky projects; and those individuals who drop out of the market are less-wealthy, low-risk borrowers. If the second effect is sufficiently strong, then increased collateral requirements will mean decreased expected returns for the lender. Thus a credit rationing equilibrium may occur where lenders chose neither to use collateral requirements nor interest rate increases to eliminate excess demand.

Additionally, a lot of the basic information that the lender need about the borrower is a fixed cost, *i.e.* the cost is the same for small and large loans. The fixed costs for giving out a loan may therefore be an explanation for why interest rates on small loans are so high, why they vary among borrowers, and why the poor pay the highest interest rates. Furthermore, the fixed costs determine the total amount lent out and the interest rate charged. Therefore, small differences in the borrower's wealth, or in the cost of monitoring the borrower, can lead to differences in outreach of credits. The fixed costs of monitoring may also explain why short-term loans often are much more expansive than longer term loans, even though one could assume that moral hazard is greater in longer term contracts (Banerjee and Duflo (2010)).

Paradigm of imperfect information – A Summary
Hoff and Stiglitz (1990) explain in their model on imperfect information that the apparent segmentation and fragmentation of financial markets are not only caused by government regulations but also by information asymmetries and transaction costs. The imperfect information approach emphasizes that credit markets differ in fundamental ways from other markets. Lenders exchange money today for a promise of repayment in the future, and have to take actions to increase the likelihood that those promises will be fulfilled. Lending activity thus involves insurance against default risk, information collection regarding the characteristics of loan applicants and the actions of the borrowers and enforcement elements to increase the likelihood of repayment.

Hoff and Stiglitz summarise the tasks of the lender in three problems:

1. The screening problem: The likelihood of default differs between borrowers. It is costly to determine the extent of default risk for each borrower.

2. The incentives problem: It is costly to ensure that borrowers act in a way that makes repayment most likely.

3. The enforcement problem: It is both difficult and costly to enforce contracts.

Accordingly, financial intermediaries in different segments of the financial market have highly specialized techniques. The fact that financial intermediaries use different methods and practices result in differences in costs for screening the same customer. Selecting projects is only the first stage of the financial system. It must continue to monitor the use of fund, ensuring that they continue to be used productively. In this process the financial market serves a number of functions including reducing risks, increasing liquidity, enforcing contracts and giving information. Factors that all are important for both the growth of capital and the increase of productivity. The imperfect information paradigm holds that it is the markets' responses to these problems that explain the features of credit markets in developing countries.

In developing countries the maturity of bank assets is often very short-term due to that banks then can monitor and influence the ones they lend to and for depositors to use short-term deposits to monitor and influence banks (Rey, Patrick and Stiglitz, Joseph E. (1993)). Consequently interest rate increases can lead to substantial reductions in bank net worth, aggravating the risk for bank crisis (Demerguc-Kunt, A. and Detragiache, E. (1997)).

Cross-country studies suggest that countries with well-developed financial intermediaries experience faster declines in both poverty and income inequality, and it is emphasized that the development of financial markets and institutions are helpful in reducing poverty, as discussed above (Honohan (2003)). Stiglitz (1993) characterises the financial system like the brain of the economy since it plays an important role in collecting and aggregating savings from people that have excess resources. These resources are allocated to those with the highest returns, such as home builders that can make productive use of them. He argues that difficulties for doing so arises from lack of incentives, partly due to lack of the right government policies. He argues that regulation of financial markets serve four functions: *i)* maintain safety and soundness, *ii)* promote competition, *iii)* protect consumers, *iv)* ensure that undeserved groups have some access to capital.

Djankov et al. (2007) explore credit institutions in 129 countries over 25 years and show that contract rights and enforcement institutions play a big role in the development of financial markets. Beck et al. (2000b), Honohan (2003), McDonald and Schumacher (2007) among others, underline the importance of the legal structures as well as the regulatory and information infrastructure in determining the scale and efficiency of finance in developing countries. These are seen as key aspects on which much of the current debate on financial regulation focuses, especially within IMF. Hence, since the original formulation of the McKinnon-Shaw hypothesis, the emphasis of the debate has changed. From a rather narrow economic or technical perspective with a focus on the effects of real interest rates on savings to considerations of aspects such as insufficient legal protection of creditor rights and information asymmetries about borrowers' ability and willingness to repay credits. The empirical literature has also given a push for institutions as a driver for long-term economic growth as for example Acemoglu et al. (2001) that argues that security of property rights perhaps has been the single most important factor for why some countries grew rich.

The discussion above also shows that it is important to reduce the cost of giving credit, especially for credits to lower income population, if one wants to deepen the financial market. Lower interest rates also generate better incentives in terms of less risky projects and therefore less monitoring is needed.

The solution to the problem of moral hazard is consequently the use of incentives. Contracts should be designed so that the first party taking the action will, in her own best interests, act in the way the second party would prefer. One way to contribute to this is by developing better institutions for recording of property ownership that make it easier to screen applicants and enforce loans.

Micro-finance institutions have succeeded in designing contracts such that when a borrower responds to these contracts in his own best interests, the lender obtains information about the riskiness of the borrower and induces the lender to take action to reduce the likelihood of default, for example by reducing the cost of credit by using peer monitoring.

In the following sections, Section 3.3 and Section 3.4, different more specific mechanisms for providing housing credits in the formal and informal economy will be discussed. But first I will present a definition of the formal and informal economy and financial sectors.

Formal and informal economy

Dualist thinking about the economy in developing countries received a boost in the early 1970s, with the presentation of Hart's influential paper on urban employment in Ghana (Hart (1973)), dividing the economy into informal (an extension of the concept of traditional) and formal (more or less analogous to modern) sectors and emphasizing the significance of self-employment and small enterprises and the degree of statistical under-recording in the informal sector. In evaluating the formal/informal classification of economic activities, it is worth remembering that all classificatory schemes can be considered arbitrary, subjective, inflexible, and/or narrowly defined for a specific purpose. The flourishing informal economy in many developing countries may be interpreted as symptoms of profound institutional weaknesses.

When it comes specifically to the financial sector Levine (2008) argues that there is no need to distinguish between formal and informal financial systems. This because all countries have extensive laws and regulations governing formal financial systems that also impact on financial policies of the poor. When informal financial arrangements become economically significant at a national level, these arrangements are moved under the umbrella of formal regulations. Consequently, it is important to look at the role of formal financial systems, and the economic opportunities of the poor according to Levine. Although the informal financial sector has dynamism of its own, the structure and functioning of the formal financial sector largely determine the nature and extent of the informal sector.

3.3 Intermediation of housing credits in the formal economy – crucial aspects

In this section I will discuss what can be needed for financial intermediaries in order to screen potential borrowers and enforce loan contracts to be used by individuals for purchasing housing and land in the formal economy. The framework is based on the theories on financial development explained in previous sections. It takes its main point of departure from the Hoff and Stiglitz model of imperfect information, with emphasis on screening and foreclosure in the formal economy and to a less extent screening, monitoring and enforcement in the informal economy.

3.3.1 Screening requirements

Capacity to pay back the loan and make down payments

Because of the concern with credit risk and information problems, lenders ration credit. Lenders primarily screen borrowers based on their capacity to pay back the loan and those able to make significant down payments. Normally the capacity to pay back the loan is estimated through a so called payment to income ratio. The payment to income ratio is the ratio of the annual mortgage payment (including payments for insurance, property taxes, and the like) to the borrower's income. Lenders also screen borrowers by demanding savings so they can make significant down payments (Chiquier and Lea (2009)). Collateral is irrelevant if households can satisfy these initial requirements, since financial institutions would be reluctant to provide loans only to have to foreclose on them. Loans can also be unsecured, *i.e.* only based on the savings and the capacity to repay the loan from the income on the borrower.

This rationing make lending more prudent, but at the same time it also reduces the welfare of those who are rationed out of the market by non-price factors. When lenders rely on high down payments, lending can be a regressive way to solve the informational problems associated with loans as high down payments are difficult for lower income household, see for example (Schmidt-Mohr (1997)). Reliance on previous savings to determine loan eligibility arises when lenders' are reluctant to lend against borrowers' future income. It is also the result of the fact that mortgage credit risk is largely driven by the behaviour of house prices which means that the risk is geographically concentrated. As a result, especially lenders with geographically concentrated portfolios, may limit their risk by allowing only those with accumulated savings access to credit.

Information sharing is also important to overcome adverse selection and moral hazard problems in credit markets (Pagano and Jappelli (1993)), (Padilla and Pagano (2000)). Income should be verifiable, *i.e.* be a formal income verified either by proof of regular income from employer or by audited accounts, if the borrower has her or his own enterprise. Good financial data bases, accounting and auditing system are thus key requirements for access to formal loans such as mortgages. By using public credit registries or private credit bureaus, lenders can assess borrowers' willingness to pay by collecting information on his historical record of payments for other debts. Effective auditing standards and effective legal systems are also important for a transparent system that prevent fraud. Bank level data show that greater information sharing leads to increased bank lending, higher bank profitability, reduced cost of credit for borrowers, a reduced likelihood of financial crises, and higher economic growth (Houston et al. (2010)), (Pagano and Jappelli (1993), (Djankov et al. (2007)), (Detragiache et al. (2005)), (Love and Mylenko (2005)), (Brown et al. (2009)), (Houston et al. (2010)).

If standardized information about credit histories is not available, banks would have to spend resources collecting information on potential borrowers, and this raises transactions costs and limits the capabilities of the lenders. However credit bureaus should not be seen as a substitute of the many elements of the screening process because although a borrower has a good credit history it is not a guarantee that this will continue (Merrill (2009)). Additionally, the introduction of a credit bureau has different policy implications considering the presence of moral hazard and adverse selection. A credit bureau allows lenders to get information about whether potential borrowers have defaulted on another lender's loans and hereby reduces the risk for moral hazard as reputation becomes more important for the borrower. But the positive effect of a credit bureau is less obvious in the adverse selection case because it makes it harder for a lender to profit from previous experience with the borrower. This means that lenders would be less willing to help new borrowers to establish a public track record, because they know that when it is established the borrower can take advantage of previous good behaviour and go to other banks.

Good identity verification of borrowers and civil registries are also essential for lenders in order to make sure that customers are who they claim to be.

Land as collateral

Lenders providing mortgages also screen applicants by asking for security, such as real property, *e.g.* land. Lenders adjust the loan amount to the value of the property, the so called loan to value ratio (LTV). The LTV is generally considered as a more basic determinant of credit risk, because as long as the loan amount is less than the property value, the lender can always recover the loan by taking over the property and selling it. This will be discussed more in depth in the Section 3.3.2 on the foreclosure process. Using real property as collateral therefore normally leads to larger loans and lower interest rates than loans not secured on land or a house. In a well-functioning housing market, interest rates on mortgages from both commercial and government institutions are set just marginally higher than prime lending and deposit rates in the commercial banking system (Arimah (2000)).

Empirical evidence suggests that an efficient system of collateral increases the welfare of society as lenders make housing loans more accessible through higher LTV ratios (Chiquier et al. (2009)). The meaning of an efficient system of collateral will be discussed in the following sections.

Formal property rights

Formal ownership of land is ideal as collateral as this right increases the incentives of borrowers of repaying the loan, since people have something to lose if they do not pay Hayek (1945). Most economists argue that formalization is necessary in order to reach all the benefits associated with property rights (Besley and Ghatak (2010)).

Property rights improve the ability of borrowers to use their assets as collateral and thereby increase access to credit. The classical economists, from Smith to Marx, emphasized the role of property rights in the process of economic development (Besley and Ghatak (2010)). New institutional economists such as Douglas North agree about the important role of policies that define and enforce property rights for the development process (North (1991)).

Property rights refer to an owner's right to use a good or asset for consumption and/or income generation, often referred to as use rights, *i.e.* it defines the use rights to an asset which distinguish ownership from control. It can also include the right to transfer use right to another party (Barzel (1997)), (Alchian and Demetz (1972)), (Brandao and Feder (1996)).

North (1991) stresses that property rights evolve over time, driven by political and economic forces. Transferring the rules in Western market economies to developing countries is therefore not a guarantee for good performance. Instead there is a need for societal norms that give legitimacy to formal institutions such as laws. Informal norms provide an important legitimacy to formal rules. Therefore, North argues, societies that adopt formal rules of other societies will generally not perform as well as the country where the formal and informal rules coexist. Therefore, a study of property rights in relation to collateral should consider the informal rules such as customary rights (Singh and Huang (2011)).

While moving towards more formal property registration care should be taken not to undermine customary rights and transfer unintentionally property to richer segments of the population.

Secure property rights

The model of competitive markets typically assumes that property rights are well defined and secure, *i.e.* easily enforced (Besley and Ghatak (2010)), (Brandao and Feder (1996)). Secure property rights are also important in order to alleviate moral hazard when a borrower has illiquid wealth. In other words, lack of secure property rights could constrain an economy more than lack of wealth, in terms of output and efficiency (Besley and Ghatak (2010)), (de Soto (2000)).

The question is then how property rights become secure in a country? Effective states are those that support institutions that make property rights secure (Besley and Persson (2009)), (Besley (1995)), (Acemoglu (2003)). Enforcement mechanisms of private property rights can include the court system and the political system. Courts must enforce private contracts impartially and have both the ability and willingness to understand complex contracts and verify technically intricate clauses that trigger specific actions.

The way secure property rights affect the efficiency of resource allocations has two aspects; first by limiting the risk for expropriation and second by facilitating market transactions. The first aspect enhances investment and reduces the need to spend private resources in protecting their property. The second aspect refers to the possibility for trade in assets and thereby improve the possibility to use assets as collateral, thereby facilitating credit transactions Besley and Ghatak (2010). On the other hand, when there are insecure property rights, people may fail to realize the fruits of their investments and efforts. It also leads to costs for individuals that have to defend their property, cost which from the economic point of view is unproductive. Hence, improvement of tenure security is shown to have positive effects on investment in housing, see for example (Durand-Lasserve and Selod (2007)).

Difficulties in the enforcement of (formal) property rights, *e.g.* when registering a mortgage, can arise from the presence of multiple rights on the same assets, and from systems that are expensive, unclear and time consuming. As property rights are abstract, some rights may easily remain hidden to potential acquirers. If only one right were held on each asset, enforcement would be relative easy to provide. Governments and judges would only have to guarantee the peaceful possession of assets, preventing individuals from being deprived from them against their will by violence or fraud. But in that case actual possession - direct, physical and intentional control - would be the only possible right on assets, precluding multiple and abstract rights (Arrunada (2012)).

Property rights and contracts

The relationship between contracts and property rights is close, as both specify a set of decision rights: rights to take some actions and rights to proscribe others (Besley and Maitreesh (2010)), (Acemoglu and Johnson (2005)). A country's laws concerning contracts, company types, bankruptcy, and securities, and the enforcement of these laws, fundamentally determine the operation of financial systems (Besley and Ghatak (2010)), (de Soto (2000)).

The law and finance theory holds that in countries where legal systems support private contractual arrangements, enforce private property rights, and protect the legal right of investors, savers are more willing to finance firms and financial markets flourish. Credit protection is also associated with higher ratios of financial depth (Djankov et al. (2007)). In contrast, legal institutions that neither support private property rights nor facilitate private contracts stunt financial development (La Porta et al. (1998)), (Bae and Goyal (2009)).

Without any functioning contract laws, ownership does not have the same allocative implications. So when enforcement costs are high, *i.e.* property rights are weak, lenders may not be willing to lend an efficient amount or, in some cases, not lend at all. When contracts are costly, owning and renting are not equivalent, since not all uses of a good or an asset can be specified in a contract. Then the residual rights of the owner represent a source of priority.

Acemoglu and Johnson (2005) investigate different dimensions of property rights, how they affect growth, expropriation risk and contract enforcement. They find that property rights institutions have a crucial effect on long-run economic growth, investment, and financial development; the contracting environment affects the form of financial intermediation, while expropriation risk holds up as a causal factor in affecting income per capita. Similarly, Haselman et al. (2010) investigates legal reforms in 12 transition countries and finds that changes in collateral laws have larger impact on the supply of credit than changes in bankruptcy laws.

How contracts are formed to support credit and land markets in the presence of transactions costs, and how these are affected by the legal system is a major topic (Coase (1960)), (Stigler (1964)). Within the broad vision that legal institutions influence financial development, there are different opinions regarding to which extent the legal system should support private contractual arrangements and the degree to which the legal system should have specific laws concerning shareholder and creditor rights. The Coasian view holds that the legal system should simply enforce private contracts, while a competing approach argues that the support of private contracts should be augmented with laws about companies, bankruptcy and securities that provide a framework for organizing private contracts and financial transactions. Both however agree that the degree or protection of private investors is a crucial determinant of financial development.

La Porta et al. (1998) support the view that differences in the nature and effectiveness of financial systems around the world can in part be explained by differences in protection of private contracting rights. This function could also vary across countries due to different legal traditions, common law and civil law, and hence the legal origins could determines the level of investor protection, the contracting environment, and financial development La Porta et al. (1999). However, the view that the legal origin influences financial development is controversial.

The use of financial products among households can also be restricted by low levels of financial education and financial awareness. It is common that less-educated and low-income households misunderstand mortgage contracts (Hastings and Tejeda-Ashton (2008)), (Lara-Ibarra, Gabriel (2011)).

3.3.2 Foreclosure

As explained in previous sections, property rights affect the development of credit markets since they affect what can be used as a security (Besley and Maitreesh (2010)). A large part of the potential collateral value of legal property is derived from the possibility of foreclosure on a loan as people then have something to lose if they do not pay according to the contract (de Soto (2000)). For example, a land owner may use the land as collateral for a loan by granting a mortgage to the lender, instead of taking an unsecured personal loan. In both cases, the creditor has a right to be paid from the land, conditional on the borrower's default. However, the mortgage lender keeps the same claim on the land even after the debtor sells it or contracts a second mortgage on it.

Mechanisms that allow mortgage contracts to protect the interests of both lenders and borrowers include fair and efficient foreclosure procedures. Appropriate types of mortgage instruments can theerefore contribute to a better functioning housing market (Buckley (1994)). In practice, in many developing countries there have been a strong perception, and often still is, that these rights remain unbalanced in favour of the borrower (Chiquier et al. (2009)). This perception about creditors' rights implies that lenders use mortgage foreclosure only as a last solution of debt recovery. People in most emerging markets, partly for cultural reasons, would rather pay their mortgage in advance than risk losing their homes and risk the social stigma of repossession (Chiquier et al. (2009)).

Long delays, uncertainties, and judicial bias against creditors' rights weaken the collateral value of property, discourage creditors from making more and larger loans, and may make them seek alternatives that provide less legal protection to debtors (Chiquier et al. (2009)). One reason for this is reluctance among policy makers and courts to evict citizens from their homes. If mortgage enforcement is uncertain, financial regulatory authorities may be reluctant to grant banks regulatory incentives to hold mortgage loans or mortgage securities. Chiquier et al. (2009) suggest that when awareness improves, countries will implement reforms that strengthen the effectiveness of their mortgage collateral system. They divide countries in three groups according to the time needed to execute a mortgage, *i)* the very expedient systems - corresponding to less than one year (most developed countries), *ii)* the rather expedient systems - corresponding to between one and two years (where many countries that undertook reforms may be found), and *iii)* the ineffective systems -

corresponding to more than two years (in many developing countries). A faster process means greater certainty in collateral rights. It means lower risk and costs, and thus greater proceeds from the sale of the home, and that can benefit both the creditor and the debtor. An effective mortgage foreclosure system will also improve the credit culture, as borrowers are more likely to honour their debt obligations if there are significant consequences of not doing so (Chiquier et al. (2009)).

Another aspect of the foreclosure process is the mechanism for liquidating the property. A public auction is often required for the sale, and in many jurisdictions minimum prices are set by the court, by agreement of the parties or by auctioneer, subject to the approval of the court or the parties or by legislation. When lenders take these costs and uncertainties in the price into account, the outcome can be higher interest rates, larger down payments or credit rationing in the overall market(Butler et al. (2009)).

An example of the foreclosure process

As well as the total time required to foreclose on a property varies, so varies the time to complete the three main steps that make up the foreclosure process: i) notification of the borrower, ii) judgement on the right to foreclose and iii) enforcement of the judgement. I will now present an example of these steps with help of an article by Butler et al. (2009).

If the debt is not repaid within a certain period the notification process starts. The lender, a court or a notary send written warnings to the borrower informing that the borrower's rights to the property will be terminated if the debt is not repaid within a certain period. The notification process ends when the borrower has received an official notification that the foreclosure process has begun.

The judgement process refers to when a court rules on the existence of the mortgage and the right to enforce it. This process starts when the borrower's default on the mortgage is officially registered or declared, or when the case is accepted by the court. When a judgement is issued the judgement is completed. Depending on the law, the judgement may include a redemption period. In that case the borrower may still prevent or reverse the sale of the property by paying the debt in full. This step may also include an appeal period.

The process of collecting on the loan is the enforcement process. It starts the day the judgement is issued or, in non-judicial foreclosure (see below), the day the borrower is notified by the lender of its intent to sell the property. It ends when the lender collects on the loan. It is then assumed that the borrower does not appeal the judgement. Enforcement of the mortgage by sale of the property may entail either a public open auction or sealed bid auction (and announcements or publications required beforehand) and then a transfer of the title deed to a new owner when the property is sold. Generally the notification is a small part of the foreclosure process. It is the judgement and enforcement phases which can be lengthy periods.

Like the time of the foreclosure, the cost too varies widely. Both the time and the cost required to foreclose depend on whether a judicial foreclosure is required.

A judicial foreclosure, refers to that a creditor cannot sell the property without first going through the courts to obtain a court judgement on the debt and an order of execution. This can raise lenders' foreclosure costs.

An example of non-judicial procedure

Another example of a foreclosure process is a non-judicial process. It means that the creditor can sell the pledged property without court intervention. Under a power-of-sale procedure, a creditor may proceed directly to the sale of the property, by auction or private transaction, after a notice to the debtor. In practical terms, the power of sale relieves the creditor of the burden of going to court and presenting a case. Instead it places this burden on the debtor, who can go to court to stop the sale of the property (Butler et al. (2009)).

A further example is when the judicial proceedings are more of a formality, *i.e.* it is in between the non-judicial and the full judicial foreclosure. A summary proceeding that typically happens when a creditor skips the judgement phase of an action and applies directly for an order of execution against the property. This can be done by presenting a simple case by affidavit, with or without the debtor appearing. Summary proceedings place a greater burden on the debtor to stop the sale of the property. However, they can be converted into a full-fledged judicial proceedings by lodging permitted defences. Often the availability of a summary proceeding hinges on the existence of a loan agreement or similar document that does away with the need to prove the debt. In countries with judicial procedures, foreclosing on a property takes 415 days on average. In countries that allow summary proceedings, the average is 200 days. Moreover, in countries with non-judicial procedures, foreclosure takes only 139 days on average (Chiquier et al. (2009)).

3.3.3 Land and title registration

In spite of the relative consensus on the importance of property rights for economic growth and development, many developing countries fail to establish and maintain well-defined and secure property rights institutions (de Soto (1989)). Functioning land administration is one factor of great importance for tenure security and debt recovery (Brandao and Feder (1996)), (Singh and Huang (2011)). Property titling is increasingly considered one of the most effective forms of government intervention (Binswanger-Mkhize et al. (1993)).

Registration of real property rights affects secured housing finance in almost every step. It enables the creditor to determine that the borrower owns the property and has the right to pledge it, and makes it possible to identify any third party rights to the property that might interfere with enforcement of the mortgage right. Without a formal property process, any trade of an asset will require an effort to determine the basics of the transaction: Does the seller own the property and has the right to transfer it? Can the seller pledge it? Will the new owner be accepted as such by those who enforce property rights?

High speed, low cost, high quality and simplicity are fundamental to an efficient system for registering title transfers and mortgages. When registration is unreliable and if there are long delays in publishing the registration, or if there is a potential for competing title claims to emerge later, creditors face much higher risk in extending a mortgage. Corruption is a major problem in many developing countries. If bribes have to be paid in order to have the title registered or even to obtain a loan, then even if the system looks good on paper, it will not work well in practice. This will especially be true for lower income population that can't afford to pay bribes and/or contract intermediaries that do the bureaucratic work (Fredriksson (2014)).

The result of unreliable registration is likely to be higher interest rates and larger down payments for home-owners. Some key concerns with registration systems include the following (Chiquier et al. (2009)):

- *Costs of notary certification and registration.*
- *Speed of registration.* In most developing countries, lenders will not release the loan proceeds until the right of the mortgagor to the property title has been registered.
- *Maintenance of priorities.* In particular where registration is delayed, the law should provide procedures for keeping priorities.
- *Cheap and quick access to title information.* Creditors need to have cheap and efficient access to data on property ownership and encumbrances.
- *Mortgage for properties that will be acquired.* In some jurisdictions a mortgage cannot be registered until the debtor's title to the property is itself registered, greatly complicating transactions. In some places, lenders are forced to enter into tripartite agreement with the buyer and seller of the property. The solution consists in accepting that a property that will be acquired in the future may be the subject of a mortgage, and allowing simultaneous registration of a property sale and a purchase of a mortgage.
- *Clear provisions on indemnification for registration errors.* Assurances that creditors will be indemnified for errors of the registry can enhance confidence in the registration system and mortgage lending.

The value of property rights depends on formal institutions for valuing those rights (Brandao and Feder (1996)). The less certain lenders are on house prices, or the legal support for enforcing the mortgage lien, the less likely are they to give a large loan relative to the value of the real estate. Accurate assessments of the value of the real estate are therefore a crucial support function for mortgage lending. It affects loan-to-value ratios (LTV), the size of property insurance, the validity of higher (or lower) risk weight assignments that ultimately impacts credit risk, collateral risk, capital charges for banks and the affordability for the borrower (Merrill (2009)). Without satisfactory appraisal models, loans in relation to the value of the real estate are likely to be lower in less developed markets, as risk averse lenders reduce their appraised value significantly. Furthermore, as the appraisal can be the basis for the level of the borrower's property insurance coverage, it is linked to collateral risk of the borrower, see (Merrill (2009)).

Mortgage related insurances can be important for sharing collateral and credit risk and avoiding default and repossession. There are several types of insurance that might be required, such as property insurance, mortgage life insurance and disaster insurance see (Merrill (2009)).

3.3.4 Availability of long-term funding

A general financial deepening is a major factor for increasing the funds necessary for providing long-term loans such as mortgages. Housing will not get much funds if savings are not intermediated through the formal financial system. Nevertheless, financial sector deepening can not simply be imported by a developing country. It must be supported by a number of long-term policies encouraging savings and confidence in the formal financial sector. Moreover, there seems to be no universal best approach of fund raising. Given the particular situation in a country, it depends on costs and risks in the financial system.

There are some common characteristics of a successful system, such as an efficient and stable financial system allocating resources for housing. These include open and competitive markets, the origination and servicing of of mortgage loans and mobilization of funds for housing. Additionally, a successful housing finance system must provide its participants with effective ways and incentives to manage the fundamental risks of housing. The fundamental problem is how to mobilize long-term funding. Banks often have a maturity mismatch since most deposits are short-term. Banks in developing countries may also refuse to use their long-term funds due to concerns to manage risk. When economies grow provision of housing finance often moves towards an integration of housing finance into the broader financial markets (The World Bank (2015a)).

Contract savings institutions are specialized depository institutions. they link the savings efforts of an individual to a collective fund with the promise to receive a loan in the future. Contractual savings scheme for housing is one of the oldest and simplest funding mechanisms for housing finance since it not requires a developed market for housing Funds are generated through loan-linked savings contracts, see (Dubel (2009)). Another model is a secondary mortgage market. A secondary market involves the sale of mortgage loans or mortgage securities backed by specific pools of mortgages. The risks and ownership of mortgage loans are then transferred to a third party. The loans are originated by a variety of primary lenders such as banks and specialized mortgage companies (Lea (2009)).

3.4 Intermediation of housing loans in the informal economy

There are different financial alternatives that can suit the low-income population that do not qualify for, or don't want, a formal bank loan, which is most people in developing countries (Banerjee and Duflo (2011)). In the absence of microfinance informal actors are friends, family, and moneylenders. Credit from friends and family is often for free. Moneylenders on the other hand are known to charge usurious interest rates, although it also must be recognized that there are no single opinion on that (Banerjee (2013)). The microfinance market ranges from small programs that lend to a few borrowers, to large institutions with millions of clients and that actually also lend out money to customers that are working in the formal economy (Ghosh et al. (2000)). In 2011 there were 195 millions microcredit borrowers in the world, according to the Microcredit summit (http://www.microcreditsummit.org). Housing microfinance and community-based shelter funds allow poor and low-income clients to finance their housing needs incrementally. Loans are given for land purchase, land preparation, infrastructure installation, service provision and housing construction, including extensions and improvements. (UN-habitat (2005)), (Ferguson (2004)).

3.4.1 Screening requirements

In the informal credit market, there are few means to force borrowers to repay loans. Even if the lender knows that the customer is able to repay the loan, it is difficult to enforce the contract if the borrower is not paying back. A general characteristic of lenders in the informal economy is innovations that incentive borrowers to pay back the loan and thereby also lower the cost of giving out small loans. Stiglitz and Weiss' theory about adverse selection has been criticized with the argument that informal lenders close to their borrowers have information on the characteristics of the borrowers and therefore some of these lenders have low transaction costs, especially low costs for screening (Ghosh et al. (2000)). In fact, moneylenders like providers of microfinance have very low loan default rates, below 10 per cent and 2 per cent are common (Banerjee (2013)). However, what distinguishes microfinance from moneylenders is that providers of microfinance provide credit at lower interest rates and also to borrowers that they are less familiar with, and importantly they do this without losing control over monitoring costs (Banerjee (2013)). The basic principles of housing microfinance intermediaries include the following (Serageldin et al. (2000)), (Merrill and Nino (2006)), (Ferguson (2004)), (Tomlinson (2007)), (Daphnis and Ferguson (2004)), (Habitat for Humanity (2014)):

- *Small size and frequent repayments:* A key feature of microfinance is small loan size based on the capacity to repay. However, even small loans have fixed costs, for example finding out where the borrowers lives. Therefore the interest rate is high. But high interest rates disincentive the borrowers to repay and the lender have to either cut the loan amount or spend additional resources on monitoring. And the cycle begins. A direct effect of this is that small savings in lending costs can lead to large differences in the interest rates (Banerjee and Duflo (2010)).

Another typical feature of microcredit is frequent and small repayments. The founder of Grameen Bank Mohammad Yunus explains that it is a large temptation among families to use money to use immediate consumption needs. Therefore borrowers prefer the incremental process than having to save money to pay a lump sum (Yunus and Jolis (2003)). However, a recent study (Field, E. and Pande, R. and Papp, J. and Rigol, N. (2011)) shows that most microfinance contracts are not flexible in the time structure of payments. Typically instalments start a week after loan disbursal, which makes it difficult to invest in something that will take more than a week to generate income.

- *Previous savings:* Commitment and a capacity to save underlie the structure of micro- finance programs. Savings can also be used as a form of collateral. For example the customer contributes with 20 percent of the loan amount to a savings account to which the lender is a signatory (Bulow and Rogoff (1989)), (Rutherford (2001)).

- *Technical assistance:* Micro finance products can provide customers with training and technical assistance in order to improve the quality of the house, lower the cost and finish a project on time. Examples on technical assistances include housing design and construction, land acquisition and land registration.

- *Past repayments performance:* Lenders in the informal economy typically offer dynamic incentives. Borrowers' access to future loans can be conditional on past repayments records, implying that a good performing borrower are rewarded with larger loans with lower interest rates and longer periods of repayment in the future (Udry (1990)), (Karlan and Zinman (2009)). For repayment to dominate in this model the rate of loan growth must be higher than the interest rate (Bulow and Rogoff (1989)). And it is also important that the microfinance organisation stay in business (Banerjee (2013)). In effect, microfinance is a relationship business that counts heavily on various types of ties between the lender and the borrower, mainly the availability of a continuing stream of small credits, but also other products such as savings. The simplest penalty for default is the exclusion from future opportunities to borrow from the lenderUdry (1990). However, it also has to be recognized that the impact of the penalty of cutting off future credit will depend on the borrowers' access to credit from other lenders (Udry (1990)). Additionally, microfinance institutions may therefore enhance the reputation effect through promises to increase the size of the loans over time to good borrowers. Moreover, regular repayment schedules, where the borrower starts repaying the loan almost immediately, have proven to increase the repayment ratio (Morduch (1999)).

- *Formal title not required:* Some kind of assurance about right of occupancy may be needed, for example tax receipts (Serageldin et al. (2000)), (Merrill and Nino (2006)), (Ferguson (2004)), (Tomlinson (2007)), (Daphnis and Ferguson (2004)), (Habitat for Humanity (2014)).

- *Targeting women:* Most microfinance institutions target women. D' Espallier et al. (2011)) use a data set representing 350 microfinance institutions in 70 countries to analyze the common belief that women are generally better credit risks in microfinance than men the results confirm that a higher percentage of female clients is associated with lower portfolio risk, fewer write-offs and fewer provisions, all else being equal. Interaction effects reveal that, while focus on women is generally associated with enhanced repayment, this trend is stronger for non-governmental organizations, individual-based lenders, and regulated microfinance organisations.

- *Reputation:* Reputation may be an important feature that distinguishes microcredit from traditional moneylending. Microfinance organisations market themseleves by talking about their social mission. That may affect the trust in the organisation, which benefits the lender. Even though borrowers want a lender that can put some pressure on them to pay back, they don't want too pressure but flexibility (Banerjee (2013)).

- *Group lending:* One of the main features of early providers of microfinance such as Grameen Bank was group lending. Group lending takes advantage of the personal knowledge group members have of each other. The outcome of peer monitoring is that risk is transferred to the borrowing groups, and less risk is taken by the bank. The group may also be better able to punish those who dafaults (Greif (2002)), (Greif (2004)), (Greif (2006a)), (Greif (2006b)), (D'Cruz and Satterthwaite (2005)). Housing microfinance loans are almost always provided to individuals, rather than to groups. Collective guarantees are seldom used for housing loans particularly in urban areas, because the peer pressures created by programs in a neighbourhood or a village are largely absent. Also the larger the loan amounts, and the longer the terms of a housing loan, the greater risk would it create on other members of a group (Serageldin et al. (2000)), (Merrill and Nino (2006)), (Ferguson (2004)), (Tomlinson (2007)), (Daphnis and Ferguson (2004)), (Habitat for Humanity (2014)). However, the empirical research has yet not produced clear results on either for or against the effect of group liability and on the effect of social capital on repayment, risk taking, insurance and other outcomes (Banerjee (2013). A challenge of group lending is to use the group information/enforcement ability in the interest of the lender. Group liability can be a way to achieve that. However, a concern is that group liability will discourage risk taking because group members have no incentive to pay for other group members risks. Therefore the very high repayment records may actually reflect inefficiently low levels of risk taking Banerjee et al. (1994) Stiglitz has formalized the use of group lending into a theory in which he uses the concept of peer monitoring in avoiding that the group instead of monitoring jointly choose the opposite desired actions of the lenders. Higher levels of liability impose a cost on the high-risk option, conditional on at least one of them succeed. Also, higher liability allows the interest to be lower, which benefits the low-risk action since those who take the low-risk action pay interest more often. This can be regarded as an alternative form of collateral, which uses social pressure to reduce the risk for the lender. To compensate for the risk of having to pay back the neighbour's loan, the lender must offer the borrowers larger loans. Stiglitz shows in his model that for a low level of the share that the cosigner must pay in the case of default, the risk burden transferred to the cosigner is exactly compensated for by the reduction in the charged interest rate. The success of collective loans depends also on the strength of local organizations. The relation to the state is a primary challenge for community funds if they try to scale up and at the same time maintain a community-drive process (UN-habitat (2005)), (Tomlinson (2007)), (Serageldin et al. (2000)).

A concern is also that group lending can be costly for both the lender and the borrowers. The group members spend a lot of time and effort in group meetings and in monitoring group members. Additionally, higher performing members of the group may have difficulties in obtaining larger loans as the group loans are restricted to what the entire group can guarantee. If a member of the group defaults, credit to the whole group is stopped until the default is corrected (Besley (1995)).

3.5 Summary

Financial liberalisation and macroeconomic stability are not sufficient conditions for enhancing financial sector deepening. Financial institutions operate in environments where complete information is often not available. This information asymmetries requires a screening effort in order for banks to give loans in order to minimise risks. The lender cannot rely only on increasing interest rates as an increase in interest rates at a given expected return will induce low-risk projects to drop out first, keeping the riskier ones. Therefore, financial liberalisation should be accompanied by institutional development. In particular, information asymmetries about borrowers' ability and willingness to repay loans and sufficient legal protection of creditor rights need to be addressed.

Ability of borrowers to provide adequate financial statements through audited accounts and credit information registries are essential to encourage the expansion of credit.

For larger loans lenders require collateral. By requiring collateral, the lender imposes a cost on the borrower in case of default. Debt collection and foreclosure on collateral must balance the rights of the lender and borrower. Functioning land administration is of crucial importance when using land as security.

Chapter 4

The Financial Sector in Uganda

To understand the development in the financial sector after the financial liberalisation, and in particular the recent developments, it is important to know the situation before the reforms as well as the content of the reforms that have been carried out. This chapter first gives a summary of the political and economic situation in Uganda. Thereafter it briefly describes the financial sector before liberalisation as well as the financial reforms that have been launched during the liberalisation period and finally it presents some material about their consequences.

4.1 Background: political and economic situation

Uganda is a developing landlocked country in east-central Africa. Milton Obote led Uganda to independence in 1962. He was ousted in 1971 by Idi Amin Dada. Tanzanian forces ousted Amin in 1979 and Obote then returned to power.

From 1971 to 1986 Uganda's economy was weakened first by the economic tyranny under Idi Amin which was characterised by economic mismanagement that led to a drastic decline in the savings rate, to hyperinflation, and to a collapse in business confidence. The extreme political instability under Milton Obote, and the descent into an asset-destroying civil war led to a continued economic decline. By 1987 real GDP was declining by 2.7 per cent annually, and inflation was at 3 digit levels. The currency was heavily overvalued at official exchange rates. All sectors of the economy were operating below capacity (The World Bank (2007)). In 1986, Yoweri Musevine took power in a military coup. A multi-party government was established in 2005. Museveni won a third term in 2006, a fourth in 2011 and a fifth in 2016 (The Economist (2016)).

4.1.1 Macro-economic development

In the 1990s and 2000s Uganda was undergoing a remarkably transformation from a failed state to one of the best performing economies. Annual growth averaged 6.3 per cent in the 1990s, and accelerated to 7.0 percent during the 2000s (The World

Bank (2012b)). Economic growth was, however, less in per capita terms, see Table 4.1. Uganda is one of many successful Sub Saharan Countries that since the mid-ninties has achieved rapid economic growht and also macroeconomic and political stability (Berg et al. (2010)).

Table 4.1: Macroeconomic indicators, 2002/03-2012/13 [%].

	GDP growth	GDP per capita growth	Annual inflation, average	Budget Deficit/GDP	Average Exchange Rate UGX/USD
2002/03	6.5	2.1	5.7	2.3	1,998
2004/05	6.3	2.8	8.0	8.0	1,738
2006/07	8.4	4.8	7.4	0.77	1,780
2008/09	7.3	3.5	14.1	2.5	1,930
2010/11	6.3	2.6	6.7	0.92	2,323
2012/13	4.4	1.0	14.0	4.3	2,473

Source: Bank of Uganda (2012b), Bank of Uganda (2014a)

Much of the growth in the 90s in Uganda was a recovery of the economy supported by a prudent macroeconomic framework. Some growth was also thanks to growth in international coffee prices in the early 1990s resulting in an improvement in Uganda's terms of trade by 100 per cent between 1992-1995. Some was due to the revival of trade and some was also thanks to large scale donor financed rehabilitation (The World Bank (2007)). In the 2000s the fast growth was achieved in spite of consecutive exogenous shocks including oil price shocks, prolonged drought conditions with adverse effects on energy generation and agricultural production, and volatile and increasing food prices. Both traditional and non-traditional export products suffered from declining prices in the 2000s and from a banking crisis in the late 90s. Since 2001/02 growth has been driven by the services sector, accounting for almost half of GDP. Before the financial crisis, the sectors driving growth in the services sector included financial services, transport and communications, public administration, and defense (Ssewanyana et al. (2011)). The global economic slowdown in 2009 was felt in Uganda, as reflected in the deceleration of GDP growth, see Table 4.1.

At the same time as Uganda has achieved good economic growth, there are still concerns about the future development. Even though per capital income almost doubled over the past 20 years, Uganda remains a poor country even by Sub Saharan African standards. Compared to its neighbours, Uganda has a GDP that is lower than the one in Kenya and Tanzania, but substantially higher than Rwanda and Burundi, see Table 4.2.

Table 4.2: East African countries' GDP, USD current prices, 2008-2012 (2012 figures are forecasts).

	2008	2009	2010	2011	2012
Burundi	1.2	1.3	1.5	1.7	1.9
Kenya	29.4	32.2	35.5	35.8	40.6
Rwanda	4.7	5.2	5.6	6.1	6.6
Tanzania	19.0	20.9	22.7	23.2	25.4
Uganda	14.4	15.8	16.0	16.4	16.6

Source: Bank of Uganda (2014b)

In comparison to the middle income group, which Uganda is aiming to catch up with, the gap has become even larger in more recent years as per capita income levels in that group of countries have grown almost three percentage points. Given the fast-growing population, Uganda would have to grow much faster than it has in the past years in order to double per capita income in the next 10 years and edge closer to (African) middle income status (The World Bank (2012b)).

During the twenty years between 1990 and 2010 the production structure has changed substantially and also geographically. The share of exports in GDP has more than doubled. The share of agriculture in GDP fell from about 40 per cent to about 20 per cent in two decades even though the manufacturing sector did not change much. In the 90s this shift was due to an in increase in services and in the second half of the 2000s due to a construction boom where the construction sector almost doubled to 17 per cent of GDP. However, agriculture still remains important as 75 per cent of the population primarily depend on agriculture.

Services and construction industry are also important while manufacturing grows more slowly (The World Bank (2012b)). Uganda has a substantial stock of natural resources. Uganda is believed to have 3.5 billion barrels of oil reserves. Uganda's oil reserves are among among the 30 largest in the world and forth in Sub Saharan Africa. Oil production is expected to start in 2018, and this will certainty increase growth. Its impact on poverty reduction will depend on the public policies implemented (The World Bank (2012b)).

Between 1992/93 and 2009/10, poverty (headcount, based on the national poverty line) declined from 56.4 per cent to 24.5 per cent, with both rural and urban poverty declining. Accordingly, Uganda has met the first Millennium Development Goal of reducing poverty by 50 percent to 2015. Furthermore, with an elasticity of poverty reduction to growth (one of the key measures of the efficiency of growth in reducing poverty or of the inclusiveness of growth) of 1,4, Uganda is well above averages observed in other countries (The World Bank (2012b)). However, one has to consider that these poverty figures in Uganda are based on a national poverty line derived from a 1993 consumption basket as a basis for computing the cost of basic needs in

Uganda, while consumption patterns since then most probably have changed (The World Bank (2012b)).

Some of the factors that have contributed to the reduction in poverty are (The World Bank (2012b)): *i)* Structural transformation away from dependence of farming into a more diversified economy. While agriculture remains the main source of income, many households supplement agriculture with other activities. *ii)* The growth in wage and salary incomes. This growth in wages have been recorded both in the public and the private sector. *iii)* The return to peace in northern Uganda has changed the economic climate.

Despite fast economic growth and poverty reduction Uganda has experienced a significant increase in income inequality. One way to achieve more inclusive growth is better planning for the increased urbanisation which is inevitable given the transformation from agriculture. Moving labour from low to higher productivity areas will become an even larger challenge as the population grow. Uganda's past growth generated jobs, but with a fast-growing labor force only a small fraction go into more productive employment and decent wages. Outside the agricultural sector the majority of jobs are in the informal enterprise sector or in low value, small-sized formal establishments.

Private sector growth has been impressive since liberalization private sector growth has been impressive. However, the economy is still dominated by small firms that usually employ fewer than five people (Ssewanyana et al. (2011)). In the future, job creation will become an even greater social and demographic challenge as more youths enter the labour market, especially in urban areas where inequalities are larger (The World Bank (2012b)) (The World Bank (2013)).

Corruption is one of Uganda's most serious problems and appears to be worsening. Transparency Internationals 2012 Corruption Perception Index ranks Uganda 130th out of 176 countries. Challenges related to corruption are a result of lack of separation between the public and private spheres. According to National Integrity Survey conducted by the Inspectorate of Government in 2008 corruption challenges stems from weak law enforcement. The most common forms of corruption in Uganda include payment of bribes (66 %), embezzlement of public money (15 %), nepotism (5 %), and favouritism (3 %). The government has taken several initiatives aimed at simplifying the bureaucracy and reducing opportunities for corruption. However, there are still need to improve regulations. Like in other countries public procurement is the area most vulnerable to corruption. Many corruption scandals in Uganda have shed light on the country's dependence on aid money. In 2012 the lack of accountability in dealing with these funds has put at risk the country's relationship with various donors (Martini, Maira (2013)).

Like other developing countries, Uganda faces budget constraints due to its low resource base in terms of low savings and low resource base in terms of low tax base. Uganda's tax to GDP ratio has been rather constant between 11 and 13 percent since 1996, yet government spending has continued to grow (Lwanga Mayanja, Musa and Mawejje, Joseph (2014)).

As shown in Table 4.1 Uganda's budget deficit to GDP increased substantially during 2006 to 2012, a budget deficit that largely has been financed through external resources. This in spite of the debt forgiveness through the High Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative, which reduced Uganda's external debt to manageable levels.

External funding consisted largely of loans and grants. Grants come in the form of budget or project support from bilateral and multilateral donor governments and agencies. Domestic finance sources include mainly bank financing and the sale of government securities (Lwanga Mayanja, Musa and Mawejje, Joseph (2014)).

4.2 The financial system

4.2.1 Pre-reform policies and their consequences

Many African countries intervened greatly in financial markets after independence in the 1950s and 1960s. The intervention in Uganda started in 1962, after Uganda had gained independence. It was seen as a task of the government to increase savings in order to increase the amount of funds available for lending. Lack of credits were seen as a main reason for slow growth (Brownbridge et al. (1998)). Uganda's banking system consisted of only four commercial banks in the early 1960s. Against this background, two large public banks were established - Uganda Commercial Bank (UCB) and the Cooperative Bank. The government sharply reduced the dominance of foreign banks but thereby also reduced competition in rural areas. During the 1970s and 1980s Uganda's financial system was highly regulated with direct government controls over credit, interest rates and exchange rates (Brownbridge, Martin (1996)), (Atingi-Ego (2000)).

Preferential rates were set for certain loan categories, mainly agriculture and manufacturing. For most of the 1970s and 1980s nominal interest rates were administratively set below the rate of inflation, leading to negative real rates of interest. Due to the negative returns on monetary assets, there was a steep decline in financial depth. The ratio of currency in circulation to broad money supply increased, which implies that Ugandans increased their preferences to hold cash instead of financial savings. By the early 1990s the two dominant public banks UCB (that held 50 per cent of total deposits), and Cooperative Bank were facing insolvency. Not surprisingly, the holding of long-term financial assets by the public was almost null (Brownbridge et al. (1998)), (Brownbridge (2002)), (Brownbridge and Harvey (1999)), (Clarke, G. and Cull, R. and Fuchs, M. (2006)), (Brownbridge and Kirkpatrick (2000)), (Brownbridge, Martin (1996)). It is, however, worth noting that Uganda during the 1980's experienced a prolonged economic decline as a result of mismanagement and civil war (Kasakende and Atingo-Ego (1999)).

4.2.2 Financial liberalisation

In the 1980s and 1990s, a large number of developing countries went through a period of financial liberalisation. The claim was that market liberalisation would enable the financial system to perform better in its main function of allocation scarce resources more efficiently, which in turn would benefit the rest of the economy (Stiglitz (1998)).

In 1981, the first structural adjustment programme in Uganda was launched (Bigsten and Kayizzi-Mugerwa (1997)), (Brownbridge and Gayi (1999)). The program was suspended in 1984 when the government found it difficult to meet programme targets. The new government, led by Yoweri Museveni, launched a wide-ranging economic reform programme in 1987, designed to reduce distortions in the macroeconomic framework and promote efficient allocation of resources. The program contained liberalisation of the foreign exchange rate and of external trade regulations, strengthened fiscal and monetary policy and institutional reforms (Bigsten and Kayizzi-Mugerwa (1997)).

As shown in Table 4.3 during the period 1987 to 1991, a number of discrete devaluations were launched. Foreign exchange bureaus were allowed to start operating in 1990. By 1992, the official exchange rate was derived from the weighted average of bureaus' rates, finally eroding the gap between official and parallel market rates. To make the official market more efficient a unified interbank foreign exchange market was introduced in 1993 and replaced the auction system (Atingi-Ego (2000)).

In the beginning of the 90s, the government introduced a large number of measures to control inflation and in 1993 the inflation was down at 6.5 per cent. The period of economic reforms coincided with a period of high growth in the economy. The budget deficit decreased during the period of reforms and the currency depreciated substantially (Atingi-Ego (2000)).

4.2.3 Financial sector regulation and institutional set up

In 1992 the World Bank initiated a financial sector reform programme. The objective was to deepen the financial sector, to make it work more efficiently and to increase responsiveness to customer needs. The government should reduce its role in the allocation of credit and as owner of financial institutions. The reform programme contained three parts: *i)* institutional reforms, *ii)* changes in the banking regulations that led to restructuring and closure of banks, and *iii)* liberalization of controls of financial markets, which mainly meant interest rate liberalisation (Brownbridge, Martin (1996)), (Kasakende and Atingo-Ego (1999)), (Nannyonjo (2002)).

Two new legal acts regulating the financial sector were passed in 1993; the Financial Institutions Act 1993 and Bank of Uganda Act 1993. Changes in the regulation include that banks had to meet all capital adequacy requirements, a freeing of entry for commercial banks, Bank of Uganda became an independent monetary authority and was given enforcement powers to take action when banks where insolvent or mismanaged.

Bank of Uganda thus got more independence from the Ministry of Finance in licensing and regulating financial institutions, and the new law authorized the Bank of Uganda to issue prudential regulations concerning capital adequacy, liquidity and data to be supplied for supervisory purposes. Although the supervisory capacity of Bank of Uganda was weak, owing largely to an acute lack of qualified bank inspectors, the Bank of Uganda made a concerted effort to develop its capabilities over time (Kasakende and Atingo-Ego (1999)). The Bank of Uganda Act also implied that the bank ceased to direct credit to prioritized sectors.

Ugandan banks were characterized by non-performing loans. Efforts in the early 1990s focused on restructuring the UCB and the Cooperative Bank that were facing insolvency. The previously weak supervisory capacity of the Bank of Uganda had caused insider lending in the banks which was a major contributor to the bad debts (Brownbridge et al. (1998)), (Brownbridge (2002)), (Brownbridge and Harvey (1999)), (Clarke, G. and Cull, R. and Fuchs, M. (2006)), (Brownbridge and Kirkpatrick (2000)). Since the UCB held a substantial part of the total financial assets in the country this was the most important of the reforms, and very important for the entire Ugandan financial sector.

In 1995, a Non-Performing Asset Recovery Trust was established, with the aim of taking over the non-performing assets of the UCB. In return the bank received government bonds with a face value equivalent to the loans transferred.

In 1998 UCB was recapitalized and sold to a foreign investor (Brownbridge, Martin (1996)). However, it later was found that the actual buyer was a partnership between Greenland Bank (which itself was insolvent) and some politically connected individuals.

A second privatization sale was therefore conducted by Bank of Uganda in 2001, when Stanbic, a member of the Standard bank group in South Africa, acquired majority ownership in the bank. An attempt was also made to restructure the Cooperative Bank. It failed and the Bank of Uganda closed the bank due to insolvency in 1999.

In the late 1990s and early 2000s, the Ugandan banking industry continued with significant restructurings. Apart from Cooperative Bank, several other indigenous banks were declared insolvent, and taken over by the central bank and eventually sold or liquidated (Clarke, G. and Cull, R. and Fuchs, M. (2006)).

In 1997 Uganda liberalized the capital account of its balance of payments. Since then there have been no restrictions on capital movements in or out of Uganda (Montiel (2013)).

Financial sector regulation in the 2000s

Following the bank failures, the Bank of Uganda has significantly strengthened bank regulation and supervision of financial institutions, tightened loan classification and provisioning standards, and has adopted international best practice accounting standards. The Bank of Uganda Act, 2000 (revised from 1990).

A number of acts and regulations govern this mandate and the supervision of financial institutions. Financial institutions include Commercial Banks, Credit Institutions, Micro Finance Deposit-Taking Institutions (MDIs), and Forex Bureaux.

The main categories of institutions constitute of Forex market and Domestic' Markets (Singh, Kavaljit and Vander Stichele, Myriam (2010)).

The Financial Institutions Act of 2004 (FIA 2004) replaced the Financial Institutions Act of 1993. The new Financial Act has stronger prudential aspects such as: increased core capital requirement, stricter liquidity and solvency ratios, higher capital adequacy ratio, a requirement for the directors and top managers of banks and credit institutions to fulfil tightly-defined criteria and a proper evaluation, elimination of ownership concentration, imposition of tighter limits on insider lending, imposing limits on credit levels and concentration of loans, limits on investment portfolios, and increased reporting frequency and more detailed reporting (Bank of Uganda (2005)).

In addition to FIA of 2004 (revised) and the MDI Act of 2003, there is the Foreign Exchange Act of 2004 (revised) which provides for the exchange of foreign currencies in Uganda and the making of international payments transfers of foreign exchange and for other related matters. The Bank of Uganda licenses institutions that deal in foreign exchange transactions, and also regulates their operations and disciplines them in case they do not comply with the law. The exchange rate is market determined and the monetary and exchange rate policies are determined through consultations between the Central Bank and the Government through the Ministry of Finance, Planning and Economic Development (Kigenyi, Chrisopher (2011)). IMF (Sanya and Gaertner (2012)) classifies the current exchange rate regime in Uganda as a *floating exchange rate regime*. The limited involvement of Bank of Uganda increases the possibility that monetary policy actions in Uganda is expected to be transmitted to the economy through the exchange rate channel.

In 2004, a moratorium on new commercial bank licences was declared with the passage of a new banking bill in Parliament, which established new banking institution classification guidelines grouped under commercial banks and non-bank financial institutions. There are four classes of lending financial institutions categorised in a tiered framework, based on the minimum capital requirements (Bank of Uganda (2004/2005)), as follows:

Tier 1 Financial Institutions: Tier 1 are commercial banks with a minimum capital of UGX 25 billion (about USD 10 million). Tier 1 Financial Institutions includes commercial banks which are authorized to hold checking, savings and time deposit accounts for individuals and institutions in local as well as international currencies. Commercial banks are also authorized to buy and sell foreign exchange, issue letters of credit and make loans to depositors and non-depositors.

Tier 2 Financial Institutions: Tier 2 are credit institutions with a minimum capital of USD 1 billion (about USD 400,000). Tier 2 financial institutions include credit and finance companies. They are not authorized to establish checking accounts or trade in foreign currency. They are authorized to take in customer deposits and to establish savings accounts. They are also authorized to make collaterized and non-collaterized loans to saving and non-saving customers.

Tier 3 Financial Institutions: Tier 3 are MDI (Microfinance Deposit Mobilisation Institutions) with a minimum capital requirement of USD 500 million (about

USD 200 000). Tier 3 financial institutions include microfinance institutions which are allowed to take in deposits from customers in the form of savings accounts. Members of this class of institutions are also known as Microfinance deposit-taking Institution (MDI)s. MDIs are not authorized to offer checking accounts or to trade in foreign currency.

Tier 4 Financial Institutions: Tier 4 financial institutions are not regulated by the Bank of Uganda including money lenders and savings & credit co-operative organizations. They are not authorized to take in deposits from the public. However, they may offer collateralized or non-collateralized loans to the public. In 2008, it was estimated that there were over 1,000 such institutions in Uganda. Tier 4 financial institutions with some form of legal status are not supervised by Bank of Uganda. These include SACCO's registered under the Cooperative Societies Statute 1991, MFIs registered under the Companies Act and microfinance NGOs registered under the Non-Governmental Organizations (NGO) Statue.

Other financial institutions are not supervised by Bank of Uganda, although they form part of the financial markets framework, for example insurance companies, insurance brokers, leasing companies and developments banks. In 2014 there were 23 commercial banks in Uganda (Kigenyi, Chrisopher (2011)).

The regulatory framework for financial institutions is supported by nine implementing regulations, namely licensing, capital adequacy requirements, credit classification and provisioning, limits on credit concentration and large exposure, insider-lending limits, liquidity, corporate governance, ownership and control and credit reference bureaus gazette in 2005.

Monetary policy regimes

The primary objective of the Bank of Uganda's monetary policy is to keep inflation low, stable and predictable. The ability of the central bank to signal the stance of monetary policy plays a crucial role in influencing inflation expectations. A secondary policy objective of monetary policy is to ensure that real output is as close as possible to the economy's potential level.

In 1993, the Reserve Money Program was introduced following the enactment of the Bank of Uganda Act (1993). Like other Sub-Saharan African central banks, including those in East Africa, the Bank of Uganda employed a monetary targeting framework between 1993-2011 in which broad money was the intermediate target and reserve money the operating target. The main instrument used was the regular auction of Government securities. Government securities refer to a set of instruments that are used by government to borrow money from the public. This framework worked well in the 1990s, but later became less effective in guiding monetary policy. The main reason for this was the instability and thus unpredictability in the relationship between monetary aggregates on the one hand, and output and inflation on the other (Tmusiime-Mutebile (2012)).

The Bank of Uganda introduced a new monetary framework in July 2011 in order to meet the challenges of macroeconomic management generated by the transformation of the economy over the previous 10 years, and in particular the rapid growth and diversification of the financial system. The reform entailed the introduction of an "inflation targeting lite" (ITL) monetary policy framework. Under the ITL framework the instrument of the Bank of Uganda is the interbank interest rate and not the monetary base.

In this framework, a policy interest rate, the Central Bank Rate (CBR) is employed as the operating tool, replacing reserve money. This action is based on the belief that short-term interbank rates impact on more long term rates which are deemed to be fundamental for monetary transmission into prices and the real economy. The primary auctions of government securities are now used to fund the government's domestic borrowing requirements and to refinance the existing stock of securities as they mature, rather than as an instrument of monetary policy. Under the ITL monetary policy framework, the Bank of Uganda sets the Central Bank Rate (CBR) every two months. The Bank of Uganda uses regular interventions in the money market to ensure that the 7 day interbank rate is as close as possible to the CBR. In turn, changes in interbank rates are expected to feed through into changes in other interest rates in the economy, such as commercial bank deposit and lending rates (Bank of Uganda (2012b)), (Opolot, Jacob and Nampewo, Dorothy and Ntumwa Akishule, Caroline and Nyanzi, Sulaiman (2013)), (Tmusiime-Mutebile (2012)). The Bank of Uganda has a medium term target of 5 percent annual core inflation, for more details see (Berg et al. (2013)).

With a large share of food items in the consumer price index basket (27 per cent) price volatility is foremost driven by external food and fuel price shocks and domestic supply shocks that are mainly weather related (Berg et al. (2013)), (Mugume et al. (2009)). The weight of food prices in Country Price Index in Uganda is lower than in neigbouring countries. In Tanzania it is (47 per cent), followed by Kenya (36 per cent) and Rwanda (35 per cent) Mugume et al. (2009).

The Capital Market

The Uganda Securities Exchange is the stock exchange of Uganda. It was licensed in 1997 by the Capital Markets Authority (CMA) of Uganda, under the CMA Statue, 1996. The USE is self regulated, i.e. it creates amends and implements its own policies and business within the Statue guidelines (Kigenyi, Chrisopher (2011)). In 2011, the USE traded 16 listed local and East African companies and had started the trading of fixed income instruments (Kigenyi, Chrisopher (2011)). The exchange is a member of the African Stock Exchanges Association. The USE operates in close association with the Dar es Salaam Stock Exchange in Tanzania, the Rwanda Stock Exchange, and the Nairobi Stock Exchange in Kenya. In 2010 National Social Security Fund (NSSF) controlled 80 per cent of the Uganda stock market (Mutero (2010)).

Table 4.3: Reforms in the Ugandan Banking Sector.

Reform	**Content**	**Period**
Interest rate liberalisation	– Nominal interest rates changed to to match inflation	1989
	– Treasury bill market changed from ad hoc issuance to a market based auction system which interest rates were determined.	1992
	– Interest rates were fully liberalized. The Central Bank switched to a new interest rate management regime that used monetary policy instruments with treasury bill interest rate as an anchor.	1994
	-Treasury bonds were used as monetary policy instrument.	2004 – 2011
Privatization of financial institutions	– Government sold its shares in 3 banks jointly owned with foreign owners.	1994
	– Government sold 49 % of its shares in UCB to a bank in Malaysia but reversed the sale and placed UCB under the Bank of Uganda management in 1999.	1996 and 1999
	– UCB was sold to Stanbic Uganda Ltd.	2002
	-The government divested its shares in Bank of Baroda and DFCU Bank respectively	2002 2004
Legal and Regulatory Reforms	– Bank of Uganda Statue was enacted.	1993
	– Financial institutions Statue, Microfinance Deposit-taking Institutions Act, and Financial Institutions Act and Foreign Exchange Act were enacted.	1993 2003 2004
	– Ban on licensing banks first imposed in 1996 for two years, extended in 1997 to 2000, and lifted in July 2007.	1996 – 2007
	Financial Institutions Act	2004
	Microfinance Deposit-taking Act	2003
	Foreign Exchange Act (reviewed)	2004
	Inflation targeting-lite – Central Bank Rate (CBR), replace reserve money	2011
Capital Account Liberalization	– Controls on capital account were lifted. Citizens were allowed to hold foreign currency denominated accounts in the domestic financial system and abroad.	1997
Liberalization of exchange rate regime	– Dual exchange rate regime was adopted.	1996
	– Foreign bureaus were legalized.	1990
	– Foreign exchange auction system was adopted.	1990
	– Restrictions on current account transactions were eliminated to conform to Article VII Status of International Monetary Fund Agreement.	1994

Source: Singh, Kavaljit and Vander Stichele, Myriam (2010)

4.3 Developments in the financial sector

In this section developments of the financial sector after the financial reforms will briefly be presented in light of the financial reforms implemented and the theory of financial repression. As described, financial sector reforms were conducted in order to increase financial depth, improve efficiency in the formal financial sector and increase access to formal finance for previously marginalized groups in order to reduce informal credits.

4.3.1 Development of financial depth

Measuring financial development is a complex and complicated process as there is no clear-cut definition as to what constitutes financial development. Bandiera et al. (2000) argued that an ideal index of financial sector development should include various aspects of regulatory and institutional reforms.

Financial sector reforms have mainly been implemented in order to boost financial depth, and hereby increase the resources available for financial intermediation. Therefore a high proportion of total domestic savings must go into savings deposits if the macroeconomic efficiency gains from financial intermediation are to be realised. The main channel through which this may occur are the interest rate reforms, which are aimed to lead to higher real deposit rates. Greater non-price competition among banks for deposits might also boost deposit mobilisation (Brownbridge and Gayi (1999)).

I will describe the development of M2 and M3 in relation to GDP, and the composition of bank deposits, in order to assess the development of deposit mobilization. M2 (broad money supply) includes currency in circulation, and demand-, savings- and time deposits. M3 also includes foreign currency deposits. Thereafter, I will present the ratio between private sector credit and GDP in order to assess the development commercial bank lending to the private sector.

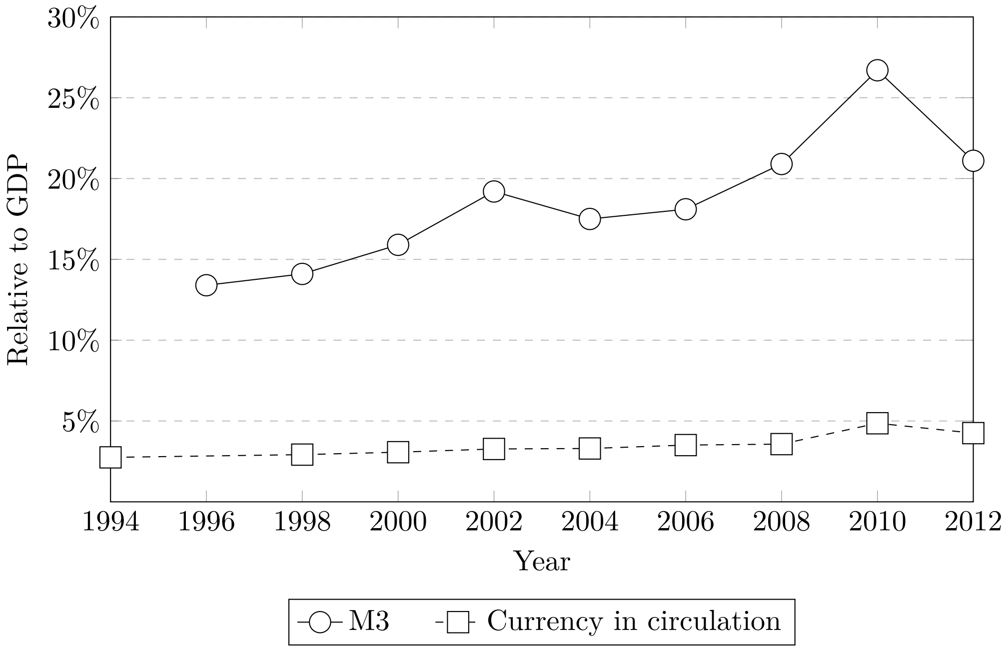
Deposit mobilization

The broad money supply has increased in relation to GDP following financial reforms, see Table 4.4. The ratio M2 to GDP increased from 12 per cent in 1996 to 20 per cent in 2012. The ratio M3 to GDP has also increased, from 13 per cent in 1996 to 27 per cent in 2010.

Table 4.4: Indicators of financial depth, 1990 – 2012.

Year	-92	-94	-96	-98	-00	-02	-04	-06	-08	-10	-12
M2/GDP	8.3	10.3	11.2	12.0	11.95	14.1	13.5	14.1	16.3	18.4	15.3
M3/GDP	6.5	9.1	13.0	14.1	15.8	19.0	16.4	18.1	20.9	26.7	21.1

Source: Bank of Uganda (2006), Bank of Uganda (1999), Bank of Uganda (2014a)



Source: Bank of Uganda (2006), Bank of Uganda (1999), Bank of Uganda (2014a)

Figure 4.1: Development of currency in circulation 1994-2010, M2 and M3 to GDP.

As shown in Figure 4.1 the currency in circulation in relation to GDP has remained fairly constant over the period 1998 to 2010, which suggests that the increase in M2 and M3 is due to increase in deposits rather than to increased overall liquidity in the economy.

However, these indicators of financial depth remain at a low level, also relative to the average for low-income and Sub-Saharan African countries in spite of the regulatory reforms in Uganda that have contributed to a more stable financial system. In Kenya and Tanzania, M2 in relation to GDP was 41 per cent and 24 per cent respectively in 2012.

The reason may be that the ratio M2 to GDP also is strongly associated with the small size of the Ugandan economy, and low per capita income. Other factors that may influence the relatively low deposit mobilisation include holding of cash and investments in the large informal economy, purchase of real assets such as real estate and precious metals, low confidence in the financial system, lack of financial services in rural areas and an unfamiliarity to use banking services. There are, however, also a number of factors, created by the banking sector itself that exclude potential customers, for example low access to a bank office and high costs of operating an account as well as as the lack of breadth and sophistication of the financial instruments.

Composition of bank deposits

The major source of funds for the commercial banks is private sector deposits. There are two broad categories of deposits; demand deposits on which low or no interest rates are paid, and time and savings deposits on which higher interest rates are paid.

For banks to succeed in their task of maturity transformation, long-term savings, i.e. time and savings deposits, are important. Savings in the terms of demand deposits, which can be withdrawn at any time, are of less importance. Another indicator of financial deepening is therefore the ratio of time and savings deposits to total deposits. There has been an increase in this ratio following the financial reforms. Time and savings deposits as share of total deposits was 29 per cent in 2000 and 38 per cent in 2010, see Table 4.5.

The increase in time and savings deposits as share of total private deposits could, beside being attributed to the increase in real interest rates and increase in national income, also be related to the increase in the number of banking-products and an increase in using bank services on the market since the financial deregulation.

Table 4.5: Time and savings deposits/total deposits, 2000 – 2010.

Year	2000	2002	2004	2006	2008	2010
Relative deposits [%]	29	30	29	33	35	38

Source: Bank of Uganda (1999), Bank of Uganda (2014a)

Credit to the private sector

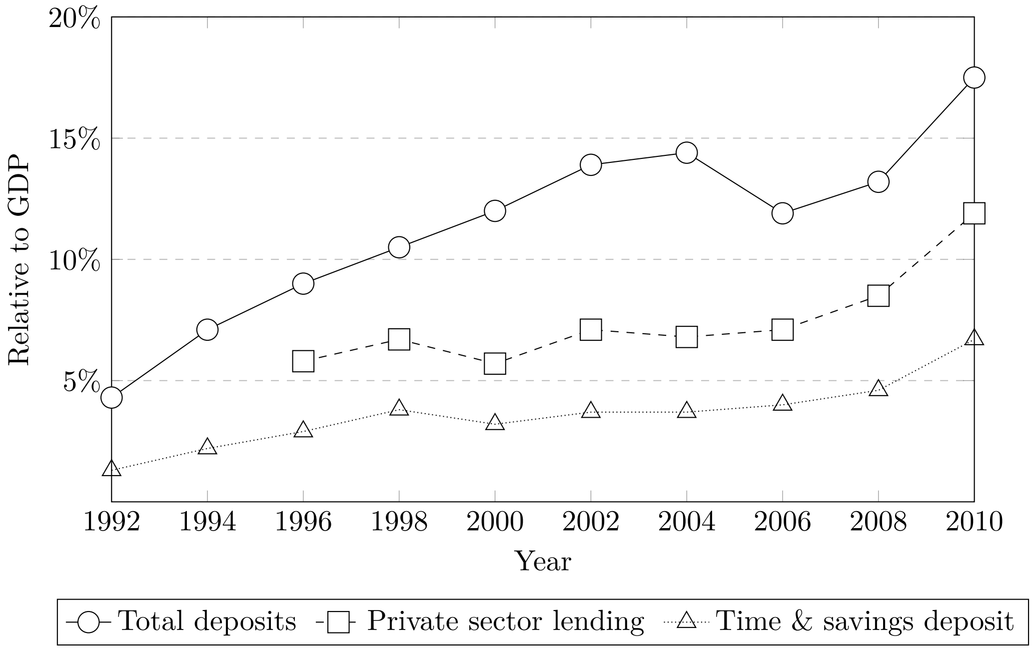
There is a large literature demonstrating the link between financial depth, measured by private sector credit to GDP, on the one hand, and long-term economic growth and poverty reduction on the other hand, see for example (Demirguc-Kunt and Levine (2008)).

The development of total deposits to GDP is shown in Figure 4.2 against the development of private sector credit to GDP. The ratio of total time and savings deposits to GDP is also presented in Figure 4.2.

Figure 4.2 shows that the private sector credit exceeds total time and savings deposits during the years 1992-2010. The relation between deposit mobilisation and credit to the private sector is not so clear, but the relation between private sector credit and time and savings deposits seems stronger.

At the end of the year 2000, commercial bank credit to the private sector was only six percent of GDP. As in most countries, Uganda experienced a rapid growth in credits before the latest global financial crisis. The ratio of bank loans to GDP doubled between 2000 and 2010, to 12 per cent. In real terms, between 2000 and 2012, bank lending to the private sector had risen fivefold.

The fall in growth of private sector lending in the second half of 2008 was in line with movements that were observed in the rest of the world as banks experienced



Source: Bank of Uganda (2006), Bank of Uganda (1999), Bank of Uganda (2014a)

Figure 4.2: Private Sector Credit 1992 – 2010 [%].

liquidity pressures and struggled to strengthen their capital positions. After the financial crisis credit to the private sector has been increasing but the growth rate of credit to the private sector decreased (Bank of Uganda (2011b)).

When analyzing the ratio of bank credit to private sector credit, a key determinant is often the government deficit, and the amount of financing that the government is seeking from the banking system. Government deficits that have to be financed by domestic resources provide an opportunity for the banking system for a relative safe investment of their deposit base, thereby raising the lending rates, and decreasing the amount of resources channelled to private sector credit (Easterly and Schmidth-Hebbel (1993)).

Table 4.6 shows the public share of total credits in Uganda in 2000-2010. In 2004 and 2006 public sector credit as a share of total domestic credit was negative, implying that the public sector made net repayments and thereby increased the funds available for the private sector.

However, despite this positive development and also the fact that the ratio between bank deposits and GDP has been increasing substantially, the ratio of private sector credit to GDP has only increased marginally. That indicates that Ugandan banks have increased their resources, but have not channelled them to the private sector.

IMF reports that bank intermediation in Uganda is still low by international

Table 4.6: Public share of domestic credit, June 2000 – 2010 [%].

Year	2000	2002	2004	2006	2008	2010
Public share of total credit [%]	40.95	41.87	6.25	-8.16	-50.64	5.23

Source: Bank of Uganda (1999), Bank of Uganda (2014a)

standards (IMF (2013b)). The relatively low level of credit to the private sector reflects low financial intermediation, as measured by the ratio of broad money M2 to GDP, but also a number of other factors, largely of an institutional nature. These may include inadequate credit discipline, widespread contract enforcement problems, scarcity of credit-worthy borrowers and projects, lack of interest rate transmission from treasury bill rates to lending rates, and the narrow range of assets that can be used as collateral, and difficulties to estimate collateral value. Hence, high transaction costs and information asymmetries raise the perceived risk of lending.

4.3.2 Efficiency of financial intermediation

Financial liberalisation aimed to increase formal financial intermediaries efficiency. The development of the size of excess reserves in the banking industry, and the development of the spread between lending and deposit rates will be presented in this section. The amount of excess reserves points towards whether banks keep their assets in treasury bills and/or place it in foreign assets instead of lending them to local investors.

A high spread could result from an uncompetitive banking environment (implying higher profits) and high funding costs or from factors such as higher risk of default that might stem from information asymmetries and the macro-economic environment. Some elements of default risk may in turn be considered system-wide and outside the control of the banks, but some banks may deliberately choose a high-yield, high-risk portfolio.

Excess reserves

Most central banks oblige depository institutions (commercial banks) to hold minimum reserves against their liabilities, predominantly in the form of balances at the central bank. These reserves (also known as legal or statutory reserves) are invariably calculated by reference to a commercial bank's liabilities.

In Uganda, banks started to accumulate excess reserves in 1992-1995, and between 1997 and 2002 the ratio of excess to statutory reserves remained fairly stable, at a ratio where excess reserves represented 100 per cent of statutory reserves (Nannyonjo (2002)). In 2010, 2012 and 2013 the capital adequacy ratio was around double the statutory minimum capital (Bank of Uganda (2010b)), (Bank of Uganda (2012c)), (Bank of Uganda (2013a)).

The development of large amounts of liquid assets during the two last decades is common for many African countries (Honohan and Beck (2007)), (Saxegaard (2006)), (Berg et al. (2013)), (Allen et al. (2011)). Saxegaard (2006) shows that the excess reserves in the African region has been fairly stable since 1995. The level of excess reserves in African countries may be a consequence of the general level of economic development, low levels of returns on credit due to market deficiencies such as the poor quality and scarcity of information about risk on individual borrowers, and the weak legal and judicial contract enforcement infrastructure. These features could also impair the monetary policy transmission mechanisms.

Due to improvement in the economic outlook in many African countries, there is increasing concern that the growth of liquidity poses significant inflationary risks and that if there is a sudden improvement in demand conditions, banks will expand lending with possible adverse consequences for inflation (Saxegaard (2006)).

There is no evidence that Uganda, like other countries that are dependent on aid, have higher ratios of excess reserves. That may be due to that they have successfully developed structural reform programs that have contributed to the development of the financial sector (Saxegaard (2006)).

Large excess reserves often make it difficult to anticipate reactions to monetary policy signalling. This is because when banks have high levels of excess reserves, they may respond asymmetrically to monetary policy signals.

Spread between lending and deposit rate

Another measure of efficiency is the spread between lending and deposit rates. The average spread between lending and deposit rate in Uganda has been, and still is high, even by African standards, see Table 4.7. Compared to the largest global economies only Brazil has larger interest rates spreads than Uganda (Willmott (2012)).

It is beyond the scope of this thesis to analyze the factors behind the high interest spreads, instead previous research on the factors explaining high spreads in Uganda will be presented.

Table 4.7: Interest rate spreads regionally and globally, 1995 – 2010 [%].

	1995	2000	2005	2010
Uganda	12.6	13.1	10.9	12.5
Kenya	15.2	14.2	7.8	9.8
Rwanda	15.2	14.2	7.8	9.8
Tanzania	18.2	14.2	10.5	8.0
China	1.1	3.6	3.3	3.1
South Africa	4.4	5.3	4.6	3.4

Source: Willmott (2012)

Lack of competition

More competitive systems are expected to see more efficient banks, with lower spreads. Competition measured as the ratio of concentration is the most frequently used indicator of banking sector competitiveness, with a high share of assets controlled by a small number of banks typically interpreted as indicative of a low level of competition (Sanya and Gaertner (2012)).

Financial liberalisation provided a stimulus to new entry of banks, as did liberalisation of the foreign-exchange market. Interest-rate liberalization also allowed local banks more freedom to compete for deposits by offering higher rates than established banks. It also enabled them to charge higher rates to high-risk borrowers, lending which might not have been profitable under a regime of regulated interest rates (International Monetary Fund (2003)).

The initial effect of new entries into the financial system in the nineties was an increase in competition, and a reduction in the degree of concentration in the banking sector, although not as much as expected (Nannyonjo (2002)). Bank of Uganda lifted the moratorium in 2007 on commercial banks to allow for more banks in the financial system. This lead to a notable growth with the entry of several commercial banks, including regional banks, which increased competition and reduced the degree of concentration in the banking sector.

The driving factor behind the growth of the banking sector since 2008 is argued to be the increased competition in the corporate banking market, which has in turn forced the larger banks to start looking for loan clients below the small clientèle of corporate clients that they have traditionally served. However, during 2008 and 2009, several of the existing banks accelerated their branch expansion either through mergers and acquisitions or through new branch openings. There is a continues trend towards mergers and acquisitions in the banking sector, which counteracts the effects new entries (Bank of Uganda (2013b)).

The competition among banks in Kenya, Tanzania, Rwanda and Uganda South Africa during the year 2001-2008 has been investigated by IMF researchers (Sanya and Gaertner (2012)) who characterize the structure of the banking system in these countries as a monopolistic competition. In 2011 the Ugandan banking system consisted of 23 commercial banks, mostly foreign- and privately owned. The largest 6 banks had approximately 70 per cent of total banking system assets, see Table 4.8.

Foreign banks dominate the banking system in Uganda. The foreign banks are predominantly located in Kampala and urban areas. The dominance of foreign banks has not only contributed to increased competition, it may also have increased market concentration, thereby aggravating monopolistic behaviour and decreasing competition.

Furthermore, there seems to be little competition among the three largest banks which face the lowest cost structures but do not charge proportionally lower lending interest rates. Competition seems to be greater among medium-sized banks, which have higher costs and also much lower profits (Willmott (2012)).

High bank concentration and monopolistic behaviour are likely to promote greater banking profit margins. The main driver of bank's earnings is lending activities (Bank of Uganda (2011c)).

Both Mugume et al. (2009) and the IMF (International Monetary Fund (2005)) suggest that the Ugandan banking sector is highly profitable. Beck and Hesse (2006) further find that although the Ugandan financial sector has observed increasing foreign bank ownership and efficiency gains since the Financial Institutions Acts, these gains have not been reflected in reduced profit margins. They also find that the variation of spreads and margins across banks have been much larger than the variation over time. Larger banks have lower spreads, but earn higher margins, suggesting that they pass gains from scale economies partially on to their customers (Beck and Hesse (2006)).

Recent research (Tebajjukira and Chandran (2015)) has investigated the profitability of five Ugandan banks, Stanbic Bank, Crane Bank, Centenary Bank, DFCU bank and bank of Baroda during the period 2006-2013. The results show that Crane bank had the highest return on assets, followed by Centenary bank and DFCU was the last. For return on equity, Stanbic bank was ranked first. Centenary Bank was ranked first in both net operating margin and earnings per share.

The degree of competition is strongly linked to the level of economic development, the function of markets and the quality of institutions such as property rights enforcement. They stress the importance of availability of credit information and enforcement of contracts in order for banks to start lending to smaller businesses and households (Sanya and Gaertner (2012)).

Operating costs

Research suggests that operational costs are a main driver behind Uganda's high interest rate spreads (Mugume et al. (2009)), (International Monetary Fund (2005)). In 2005 the IMF attributed high operating costs in Uganda to outreach efforts into remote areas and to investment in physical bank infrastructure such as bank branches and ATMs but also to the high costs of power and telecommunication (International Monetary Fund (2005)). Both Nannyonjo (2002) and Willmott (2012) have analysed the operating costs in different segments of the financial system during different time periods and both found that banks with smaller market shares had the highest operating costs in relation to turnover. Researchers that have studied the interest spread during different time periods in Uganda all find that smaller local banks have the highest spreads (Kasakende and Atingo-Ego (1999)), (Nannyonjo (2002)), (Beck and Hesse (2006)), (International Monetary Fund (2005)). Furthermore, Beck and Hesse (2006) show that overhead costs in Uganda do not always benefit from economies of scale, therefore it would probably not be profitable for most banks to extend branches outside the larger urban areas.

Table 4.8: Commercial banks' assets and market shares, (2011).

Rank	Bank	Assets [M USD]	Market Share [%]	No. of Branches
1	Stanbic Bank	1,100	21	91
2	Standard Chartered Bank	792	15	12
3	Barclays Bank	496	9	44
4	Crane Bank	388	7	16
5	DFCU Bank	384	7	41
6	Centenary Bank	381	7	41
7	Citibank Uganda	241	5	1
8	Bank of Baroda	226	4	11
9	Housing Finance Bank	191	4	16
10	Orient Bank	176	3	14
11	Equity Bank	135	3	44
12	Diamond Trust Bank	127	3	20
13	Kenya Commercial Bank	131	2	14
14	Bank of Africa	120	2	29
15	Tropical Bank	101	2	11
16	United Bank of Africa	50	1	9
17	Eco bank	50	1	10
18	Global	37	1	8
19	Fina Bank	35	1	7
20	Cairo Interntional	30	0.5	4
21	National Bank of Commerce	30	0.5	2
22	Imperial Bank Uganda	26	0.5	3
23	ABC Capital Bank	8	0.2	2
Total		5,300	100	456

Source: Fortune of Africa

Non-performing loans

High credit risk may increase interest rate spreads if it forces banks' to hold more reserves as loan loss provisions, thereby forcing them to hold money back from the market. The Financial Institutions Acts of 1993 and 2002 aimed to reduce credit risks.

In 1992, non-performing assets represented 56 per cent of total loans to the private sector. After the implementation of the new Financial Institutions Act in 1993, the banks were forced to restructure and to reduce the number of non-performing loans. Justine Nannyonjo (2002) found that the average ratio of non-performing loans during 1994-1998 was 27 per cent, and that banks with the smallest market share had the lowest average share of non-performing loans. The share of non-performing loans decreased after the closure of several weak banks in 1998/99, the privatization of UCB as well as after the improvements in the regulatory environment.

The strengthening of the commercial courts and appointment of judges to adjuncate the cases have also considerably improved the recovery of bad debts and contributed to the reported decline in non-performing assets (International Monetary Fund (2003)). In 2005 the IMF International Monetary Fund (2005) calculated that loan loss provisions accounted for almost half of the 19.5 per cent interest margin. They attribute high credit risks to asymmetries, a lack of shared information between banks, fraud and imperfect land-, corporate- and insolvency law systems.

In 2000, the non-performing loan ratio was down to 0 per cent and since 2004 the non-performing ratio has hovered around 4 percent dropping to 1.6 per cent in June 2011, see Table 4.9. The rise of bank lending to business and households before the financial crisis contributed to an increase in non-performing loans, due to challenges related to risk evaluation by banks arising from poor bookkeeping by SMEs, multiple borrowing, fraud and problems with enforcing loan recovery (Bank of Uganda (2009)).

Considering non-performing loans by sector during the period June 2009 to June 2011, i.e. after the financial sector, all sectors except households registered a fall. In particular, the agriculture sector's non-performing loan ratio showed a substantial improvement, and also that of the building and construction sector, see Table 4.10. Overall interest rate risk is low for the banks because most lending rates which banks charge customers are variable and banks have been able to react to macroeconomic developments by raising lending rates. Nevertheless, credit risk on foreign currency loans may increase because of exchange rate depreciation and increased international interest rates (Bank of Uganda (2011c)).

Table 4.9: Non-performing loans to total loans, June 1992 – 2012.

Year	1992	1996	2000	2004	2008	2010	2012
Non-performing Loans	56	45	0	4	4	0	4

Source: Bank of Uganda (2006),Bank of Uganda (1999), Bank of Uganda (2012a)

Stress tests conducted by Bank of Uganda to estimate the magnitude of losses which banks could make in the event of specific shocks, and the impacts of these losses on their capital, suggest that the largest risk of loss is if the largest borrowers default. If each bank's single largest borrower were to default, with a loss of 100 per cent, 9 banks would become under-capitalised with an aggregate capital shortfall of UGS 58.2 billion. If the three largest borrowers of each bank were to default with 100 per cent loan loss, 18 banks would be under-capitalised with an aggregate capital shortfall of UGS 390.2 billion. However, default involving the largest borrowers is likely to happen only in extreme situations such as a steep recession. For all other risks measured in the stress test, the results show that the majority of banks are resilient and have adequate capital (Bank of Uganda (2011b)).

Compared to other Sub-Saharan countries Uganda's ratio of non-performing to total loans is the lowest, see Table 4.11.

Policies that promote more efficient risk analysis of borrowers, such as shared information about borrowers, help banks to take more informed decisions and consequently write-off rates and banks' loan loss provisions.

Table 4.10: Non performing loans to total loans by sector, June 2009 – 2013 [%].

	2009	2010	2011	2012	2013
Agriculture	19.0	9.2	1.7	3.9	3.5
Manufacturing	1.0	2.5	0.2	0.6	1.5
Trade	5.7	4.1	1.1	5.5	5.3
Transport and communication	1.9	2.0	0.7	1.7	3.2
Building and construction	5.7	2.2	1.3	5.3	3.8
Personal loans	–	1.4	1.5	2.1	3.3
Other activities	1.7	5.5	4.9	5.9	6.1
NPLs to total loans	4.0	3.4	1.6	3.9	3.9

Source: Bank of Uganda (2010a), Bank of Uganda (2015)

Table 4.11: Non performing loans to total loans [%], East African Countries, 2003 – 2009.

	2003	2004	2005	2006	2007	2008	2009
Uganda	7.25	2.19	2.32	2.95	4.11	2.2	4.13
Kenya	33.43	27.98	24.81	20.19	10.67	8.96	8.85
Tanzania	–	–	–	6.75	6.32	6.17	7.27
Rwanda	8.70	9.00	9.10	8.90	10.38	13.09	14.06
Burundi	21.40	20.10	20.60	18.60	18.80	14.60	15.42

Source: Bank of Uganda (2013b)

Other factors

High intermediation spreads constitute a key mechanism through which banks generate profits and increase capital. These also protect banks against macroeconomic and other risks, so that stability of the banking system can be maintained.

Lwanga Mayanja, Musa and Mawejje, Joseph (2014) has investigated the relation between budget deficits and selected macroeconomic variables during the period 1999 to 2011 in Uganda. Their results clearly show that budget deficits in Uganda are responsible for raising interest rates and that the variance in interest rates is mostly explained by inflation. Consequently, the Bank of Uganda's ability to promote a stable economic performance will directly affect the lending rates.

The channels through which monetary policy affects aggregate demand depend on a country's financial structure. Relevant factors include links with external financial markets, its exchange rate regime, the size and composition of its formal financial sector, the degree of development of its money, bond, and stock markets, the liquidity of its markets for real assets such as housing, and both the costs to its banks of doing business as well as the competitive environment in its banking sector (Rosengren (2003)).

Research suggest that the bank lending channel is weaker in developing countries compared to developed countries. Abuka et al. (2015) examined the monetary channel in Uganda during the period 2010-2014. They found that approximately half of the variation in market interest rates translates into changes in retail lending rates, which indicates a economically significant pass-through. The bank balance sheet channel shows that high-capital banks transmit changes in the monetary policy stance significantly less than do low-capital banks, while highly liquid banks pass through these changes more than other banks. This result shows the importance of capital in monetary policy transmission. By contrast, they see that more liquid banks increase the effects of interest rates.

Funding costs

The funding cost is the cost for commercial banks to raise the necessary funds to lend. In Uganda, banks raise funds through deposits, borrowing from other financial institutions and, as a last source, borrowing from Bank of Uganda (Willmott (2012)).

The typical bank in Uganda funded two thirds of its activites during the period 2010-2014 with deposits, and the remaining sources came from shareholders' equity, market-based funding (from banks in Uganda and abroad) and other sources (Abuka et al. (2015)). Willmott (2012) investigated the reason behind the high interest rates in Uganda in 2011 by decomposing the lending rate into a capital reserve cost, operational cost, risk cost, funding cost and a residual and find that the funding cost is the main driver behind bank lending rates. Willmott explains that a reason for the increase in funding cost since 2007 may be a consequence of new banks and hereby increased bank competition or tighter financial markets after the last financial crisis.

Bank of Uganda reports that during the recent global financial crises, the soundness of Ugandan banks was not undermined, largely because of public confidence there were no runs on banks by domestic depositors. Thus the Ugandan banking sector did not experience the funding pressures faced by banks in advanced economies that rely more on wholesale markets for funding (Bank of Uganda (2010b)). However, effects of the financial crisis were noticed in stronger liquidity pressures in companies whose access to credit abroad was impaired by the financial crisis. As a result, banks had to compete more for liquidity in the domestic market. Other than deposits, banks raised funds through borrowing from financial institutions in Uganda and abroad (Bank of Uganda (2010b)).

Banks have turned to other sources when deposit growth has slowed down. For example, borrowings from the domestic interbank market almost doubled from 2009/2010 to 2010/11 (Bank of Uganda (2010b)). In an attempt to access additional funding sources, commercial banks have used swaps with offshore institutions to access funding in schillings using their foreign currency assets held abroad in nostro accounts, i.e. accounts that banks holds in a foreign currency in other banks. As a consequence of these developments, balances held with non-resident institutions have fallen (Bank of Uganda (2011c)).

Monetary policy affects the funding cost as the Central Bank Rate filters down to commercial bank interest rates and therefore determines the cost of capital. Therefore tight monetary policy should lead to higher funding costs and vice versa.

4.3.3 Access to credit

Financial liberalisation should result in better access to formal finance for previously marginalised groups. I will begin by presenting the development of the quantity of credit available for the private sector to see if the overall possibility to get a bank loan has changed. I will also look at the development for target groups of commercial banks and the composition of their lending portfolios regarding different sectors of the economy and access to formal- and informal financial services.

Structure of commercial banks' balance sheets

An important issue in the context of a developing country is whether a higher stock of liquid assets is an indicator of bank health. In developing countries, banking systems are generally considered to be *too liquid* as banks prefer to invest in safe government securities instead of lending to the private sector, thus crowding out private sector lending. (Hauner (2009)).

When looking at the structure of banks' balance sheets it is found that the assets of Ugandan banks have been dominated by government paper and foreign assets, while private lending has been increasing slowly and did not take off until the years before the latest financial crisis. It has even been a negative correlation between net foreign asset holdings and government paper holdings over time, suggesting portfolio shifts between the two assets (The World Bank (2007)).

Uganda's banking sector lending to foreign banks have been high, reflecting the preference of large foreign banks to place their foreign currency assets abroad. It also reflects the large foreign-currency- denominated flows (from donors and NGOs) that banks mobilize, compared to their ability to lend them domestically (The World Bank (2007)). A large differential between domestic and foreign currency rates and insufficient collateral have skewed lending sharply toward foreign currency to large corporations and upper-income individuals. As a result some banks have breached the 80 percent limit on the loan-to-deposit ratio in foreign currency loans. Nonetheless, banks' open foreign currency positions remain well within prudential ceilings, and banks report full compliance with regulations limiting foreign currency lending to foreign currency income earnings (IMF (2013a)).

The high rate of return available from investments in treasury bills has also provided banks with an attractive alternative to lending.

The years before 2009, the Ugandan banking industry recorded very strong growth. After 2009, however, conditions in the banking industry became more difficult. Asset growth slowed down substantially, and deposit growth was very sluggish. There was an increase in the share of Treasury Bills. This was a consequence of a rapid exit of portfolio investors from Ugandan government debt markets. The rapid exit of offshore portfolio investors could be caused by increased liquidity needs at home, and not directly due to a changes in risks on the Ugandan market. The capital outflow was also affected by the rapid depreciation of the Ugandan Shilling. This reflects the vulnerability of Uganda's debt markets and the exchange rate to portfolio investors who constituted 20 per cent of investors in the government securities market in September 2008 (Bank of Uganda (2009)). Furthermore, in 2009 yields on all maturities of government securities declined as a result of a reduction in the issuance of Treasury securities, increased liquidity in the banking system, a fall in domestic inflation and the rebound of the exchange rate from May 2009 onwards and expectations of further appreciation of the shilling. Commercial banks started to move away from government securities due to lower interest rates on such securities. Banks also reduced their balances held with banks abroad and with the central bank during 2010/11. The commercial banks' asset portfolios shifted to more risky assets. Total loans as a share of total assets rose to 52 percent at end-June 2011, up by approximately 7 per cent from previous year (Bank of Uganda (2011c)).

During the period 2010-2014 the average banks hold 52 per cent in loans, 21 per cent in securities (mostly government bonds), 10 per cent as reserves at the central bank, and 4 per cent cash. As a result, Ugandan banks were highly liquid with an average liquid-total assets ratio of 27 per cent (Abuka et al. (2015)).

Lending to different sectors

The bank's lending portfolios can also be analyzed by examining the development of credit to different sectors in the economy, see Table 4.12. The share of credit going to agriculture has fallen since the nineties. The relative decrease in agricultural credit may be explained by the fact that the agricultural sector was subsidized prior to reforms. The government set preferential interest rates for the agricultural sector and they also directed a certain share of total credit to this sector (Bigsten and Kayizzi-Mugerwa (2001)).

Manufacturing and building and construction are sectors in the economy that have received a relative increase in credit. Also trade have been increasing. In 2011 banks provided credit mainly to the trade and commerce sector and building construction and real estate sectors, and in turn, these sectors' share of banks' total lending rose to 22 per cent and 24 per cent respectively.

Bank credit to the building and construction sector as a share of total loans rose rapidly from 16 per cent in 2008 to 24 per cent in 2012. As shown in Table 4.13 a decomposition of loans to the building and construction sector in 2010 shows that most loans were for residential use. During 2010, mortgage lending rose by 23 percent (Bank of Uganda (2010a)).

A similar sectoral pattern of lending was witnessed during 2013 and 2014. However, the fastest increase in credit in the year to June 2014 was to the household sector. A significant share of these loans was to unsecured salary loans (Bank of Uganda (2014b)).

Bank lending to households and individuals have also expanded strongly, and most of these loans are consumer lending (Bank of Uganda (2009)). The rapid growth in lending to business and households has meant challenges related to risk evaluation by banks arising from poor accounting by small and medium sized enterprises, multiple borrowing, fraud and problems with enforcing loan recovery.

The Bank of Uganda Lending Survey for June 2013 suggests that approximately 50 per cent of the banks reported tightening of credit standards in the three quarters to 2013, especially for the real estate and trade sector. The key factors cited for the tightening of standards were low credit turnover, low demand, reduction in real estate market valuations, high default rate and slow resumption of operations at the land offices. On the other hand, according to the same survey, banks reported credit easing to the agricultural sector. Also the prospects for banks were to to ease credit standards in 2014 with a focus on short-term loans rather than long-term loans (Bank of Uganda (2013a)).

Table 4.12: Credit to different sectors in the private sector 1992 – 2012, [%].

Year/Sector	-92	-94	-96	-98	-00	-02	-04	-06	-08	-10	-12
Agriculture	24	24	19	15	11	11	11	24	10	10	6
Manufacturing	17	21	26	24	32	25	21	27	21	19	22
Trade	42	43	45	52	49	55	56	25	14	21	24
Transport, electricity & water	6	5	3	3	6	0.4	8	10	0	8	11
Building & construction	10	6	6	4	5	4	0	6	16	17	24
Personal loans	–	–	–	–	–	–	–	–	4	8	2
Others	–	–	–	–	–	–	–	–	33	11	4

Source: Bank of Uganda (1999), Bank of Uganda (2011a), Bank of Uganda (2014a)

Access to formal- and informal financial services

Financial liberalisation should result in a diminished role for informal finance. Nevertheless, Uganda like other low income countries in Sub Saharan Africa is characterised with a large informal financial sector (Berg et al. (2010)). Due to difficulty in quantifying the size of informal financial activities and also to measure changes in informal financial activities in absolute terms, I will try to present a picture of the prevailing development.

Overall financial inclusion

The micro-finance institutions in Uganda have not been directly affected by the reforms in the formal financial sector and they have been positively influenced by

Table 4.13: Decomposition of loans to the building and construction sector, June 2010 [%].

Year/Mortgage	June 2010
Residential mortgage	44
Commercial mortgage	16
Land purchase	5
Road construction and maintenance	2
General construction contractors	9
Specialised contractors	0
Property Developers, Estate Agents and Letting agents	24
Total (UGX, bn)	845

Source: Bank of Uganda (2010a)

government policies as well as by funding from international donors. The legal reforms enacted in 2003 and the transformation of informal MFIs into tier 3 institutions (MDIs) helped to increase Uganda's outreach of microfinance and has also placed Uganda at the forefront of microfinance development in the African region.

In 2001/2012 the first attempt to carry out information on micro-finance was made by the Ministry of Finance Planning and Economic Development with support from DANIDA (Uganda Bureau of Statistics (2011)). The survey showed that the micro-finance industry had enjoyed a steep growth rate of 70 per cent per annum during the years 1996-2001. During the 20 year period between 1988 and 2008, the number of customers increased from hardly 300,000 to over 3.5 million (Association of Microfinance Institutions in Uganda (2008)). This growth was taking place in urban areas and the rural financial sector was largely underdeveloped. There is still a dominance of micro-finance actors in urban areas (Association of Microfinance Institutions in Uganda (2008)).

According to the latest Finscope III Survey that measures financial inclusion approximately 70 per cent of the population used the financial services of an informal lender in 2013 and 15 per cent used both informal and formal lenders (FinScope (2013)). Overall, between 2009 and 2013 there was an improvement in financial inclusion. This improvement was registered mainly in the non-bank formal sector by the introduction and growth of mobile money services. Non-bank formal refers to financial intermediaries not regulated by Bank of Uganda, for example microfinance organisations, savings and credit cooperatives organisations, insurance companies and cell phone mobile money.

When excluding mobile money, that mainly is used for money transfers and not for financial intermediation, formal financial inclusion is low in Uganda compared to other countries where similar Finscope surveys on access to finance have been carried out, for example South Africa, Namibia, Swaziland and Kenya (FinScope (2013)).

Results from the Finscope III survey showed that access to credit and borrowing from formal institutions was only 4 per cent of the adult population and 4 per cent accessed credit from non-bank formal bank institutions, while 20 per cent accessed credit from informal sources. Informal sources refer to institutions such as village savings and rotating groups, non-government organisations and investment clubs. Financial inclusion through formal banking institutions remained unchanged since the previous Finscope Survey carried out 2009. This in spite of that Uganda experienced a growth in the number of commercial banks and commercial bank branches. Access to and use of formal banking services was concentrated to the population in the top 20 per cent of the wealth distribution, in the more developed regions and in urban areas; and also towards persons who were males, with higher education and middle aged (FinScope (2013))

Use of credit

Considering access to credit in 2009 and 2013 there was practically no change. The share of the population that accessed credit through only non-bank formal institutions but not a formal bank institution increased by 5 percentage points, from 2 in 2009 to 7 per cent in 2013. A reduction in the national average from informal sources declined from 32 per cent in 2009 to 18 per cent in 2013. Formal bank sources of credit refers to commercial banks (FinScope (2013)).

Access to credit from formal banks increased among adults in urban areas compared to in rural areas (FinScope (2013)). Local banks have in certain respects performed better than foreign banks in terms of providing financial services to small and medium-sized enterprises and to low-income households (Bategeka and Okumu (2010)).

According to the Uganda National Household Survey from 2005/2006 Uganda Bureau of Statistics (2010) only seven per cent of the loans from formal institutions had a repayment period longer than three years, 88 percent had a repayment period of less than one year and 4 percent a repayment period of one to three years.

According to the latest Finscope Survey III the average loan size was small; 75 per cent indicated that the loan they had taken did not exceed UGX 500,000 (FinScope (2013)). Bank customers in urban areas were more than twice as likely to access loans of more than UGS 1 million compared to borrowers in rural areas. Male borrowers in urban areas were more than twice as likely to take a loan of UGS 1 million and above (18 per cent) compared to female borrowers (8 per cent) (FinScope (2013)).

When it comes to financial literacy the Finscope Survey further showed that nearly all of the adult borrowers had no difficulty in understanding the terms and conditions before taking a loan.

Some people borrow for investment with the aim of increasing income while others borrow for consumption purposes. The trend has not changed from what was reported in the 2009/10 Finscope survey. Working capital was still the major reason for seeking a loan (22%). People borrowing for payment of educational expenses increases slightly from 16 percent in 2009/10 to 19 percent. Borrowing for consumption was still high (13%); almost similar to the proportion in the 2009/10 survey. There were no major gender variations, except for borrowing for working capital where a slightly higher proportion of females (24%) than males (20%) reported doing so.

The fact that the demand for financial services from micro-finance institutions is growing in Uganda may be determined by the development of the real economy and that there are no other options for many people. The urban informal economy has continued to grow, which in turn may have increased the demand for microfinance. The demand for microfinance may also be related to the development of microfinance institutions itself. Low-income people are not used to thinking in terms of investment, especially not long-term investments. Microfinance organisations also provide financial education to clients that are not used to take loans.

Chapter 5

Housing policy, land policy and the supply of credits in Kampala

In the previous chapter on the development of the financial sector in Uganda, it was shown that liberalization of the financial sector has led to an increase of formal sector loans although not as much as expected. However, contrary to predictions, short-term loans continue to be the main type of loans in Uganda. In this chapter the supply side of the credit market in Kampala is investigated, especially the market for long-term mortgages, with support of the theoretical framework described in Chapter 3.

The chapter is divided into three parts; the first part gives a background about the housing policies and regulation for using land as security for bank loans, *i.e.* mortgages, in Uganda; the second part presents the requirements for obtaining different types of loans in Kampala; and the third part analyses the banks' constraints when providing long-term mortgages in Kampala.

5.1 Development of housing policies

Uganda experienced rapid urbanization after independence from the British in 1962. The demand for decent housing increased at all income levels. The Government then established the following institutions; National Housing Corporation (NHCC), Housing Finance Company of Uganda (HFCU), and National Insurance Corporation (NIC). The objective with NHCC was to build houses in response to demand, HFCU should provide the related mortgage finance and NIC insurance services (Kalema and Kayiira (2008)).

In 1967 the Government established the Social Security Fund, that later has been renamed to the National Social Security Fund (NSSF) with the aim of providing pensions and other social security services. Apart from providing social security to the private sector and insurance services, the National Social Security Fund (NSSF) and NIC were the leading mobilizers of long-term savings. The pools of savings generated by these institutions aimed to be intermediated by financial institutions such as HFCU to provide mortgage finance. These institutions performed well for some years (Kalema and Kayiira (2008)).

The takeover of the government by Idi Amin in 1971 saw the start of nearly two decades of economic instability and political turmoil that resulted in the collapse of all key institutions, including the NSSF, NHCC, HFCU and NIC. The insecurity in the country, along with the expulsion of the bulk of the commercial class (Asians) in 1972 resulted in the departure of a number investors. Key real estate contractors from Israel, who built the largest housing estates in Kampala (Bugolobi and Wandegeya flats), also left the country in the mid seventies (Kalema and Kayiira (2008)).

In 1979, the government outlined a national Human Settlement Policy with the aim to improve access to infrastructure and services and also start upgrading schemes for informal settlements, and to provide sufficient residential land and plots in urban areas. The implementation of this policy was manifested through two projects: Namuwongo Upgrading and Low Cost Housing Pilot Project in Kampala and Masese Self-help Women's project in Jinja (Rugadya (2007)). Between 1971 and 1980 there is a gap in policy formulation due to the political situation during that period (UN-habitat (2015)).

After 1980 there is a renewed interest in the housing sector and its role for social and economic development (UN-habitat (2015)). Since 1986 Uganda has made considerable changes in rebuilding its housing industry. While the formal housing industry is still small, public sector involvment has been declining and it has grown from one largely controlled by the government to one that is now market and private sector driven (Kalema and Kayiira (2008)). Public sector involvement in housing development has been declining over the years.

In 1992, Uganda developed a National Shelter Strategy. Uganda was one of six countries identified by the United Nations to prepare shelter strategies from which other countries would learn. The Uganda government committed itself to providing affordable housing and to improve the quality of life of its citizens through the implementation of the Shelter Strategy using the *enabling approach* as its major policy under which the government should regulate to ensure minimum stndards and avoid overcrowding as well as identify and remove bottlenecks to encourage private sector participation in housing development (Rugadya (2007)), (UN-habitat (2015)).

The divestiture of the government from provision of housing to civil servants in particular created a pool of funds, which was deposited with HFCU for provision of mortgage finance. This amount has been used to finance mainly middle-income housing in Kampala, especially in the estates developed by NHCC. This has had a small impact considering the national financing needs (Kalema and Kayiira (2008)). There has been a reduction in of Value Added Tax (VAT) charged on housing sales from 18 percent to 5 percent in 2008 and to zero per cent in 2010. The step was taken to encourage development of large scale, well-planned residential areas.

The present institutional structure for urban housing management is managed by the Ministry of Lands, Housing and Urban Development (MLHUD), that was created in 2006, and are producing a new national housing policy. The process for formulating this policy began in 2005 and has since been stalled due to a number of challenges and inadequate resources. Additionally, there are major data gaps in terms of completeness on the national housing sector, including detailed studies of Uganda's urban sector which are seen as necessary before moving forward with new legislation.

In 2008, hardly 25 per cent of the strategies has been implemented. Furthermore, there is a lack of separation of powers at all levels of the government which creates bureaucratic delays in projects in urban areas. Conflicts of interests between politicians and bureaucrats in urban authorities also make the efficient running of urban affairs difficult. Furthermore, there is a lack of capacity in the Ministry of Lands, Housing and Urban Development (UN-habitat (2015)).

Currently, investment in the building and construction sector in Uganda is governed by a number of different sectoral laws and regulations including the Town and Country Planning Act, the Building Code, the condominium Properties Act, the National Shelter Strategy, and the development of a National Housing Policy that is under-way. Since the adoption of the NSS, a number of reforms have been carried out such as constitutional land reforms aimed at improvement of ownership, security of tenure and management of land and, as mentioned above, divestiture of government from physical housing of civil servants (UN-habitat (2015)). Any new housing policy will build on the 1992 housing strategy and the draft housing policy of 2005 to address the issues of decentralized implementation (UN-habitat (2015)).

5.1.1 Housing construction in Kampala

In the end of 1960s, the Government set up three institutions to deal with the growing demand for housing in urban areas. Since then these institutions have grown and represent an important pillar in the national housing finance matrix: i) The National Housing and Construction Company (NHCC) charged with managing and building public housing, ii) the Housing Finance Company of Uganda (HFCU) [now the Housing Finance Bank] is charged with providing mortgage finance, iii) the National Insurance Corporation (NIC) that is charged with providing insurance services across all sectors (UN-habitat (2015)).

The liberalisation of the housing sector has led to that the private sector has taken the lead in housing initiatives. The condiminium Property Act of 2001 has proveded the foundation for the change towards a private led housing construction. It is, for example, the acting force behind privatisation, enabling sitting teneants to purchase condiminiums from previously government owned housing complexes (UN-habitat (2015)). The private sector has mainly provided to upper-middle and high-income groups, while affordable housing for the lower-middle and low-income population have been unattended.

Government programs have been unable to start affordable housing projects in Kampala. One reason for this is that the government does not have access to new lands within the city. The lack of public land ownership in Kampala mainly stems from the government's adversarial relationship with the local Buganda tribal chief who controls about 900km2 throughout Kampala (Campbell Mayer (2011)).

The income disparity in Uganda has led to distortions in the housing sector as the majority of ordinary new housing is built for the small, economically elite portion of the city residents who can self finance their housing investments (UN-habitat (2015)). A Kampala resident who has a formal employment and a regular source of income of at least USD 600 per month, most likely lives in an apartment or house in a walled compound and serviced with standard utility connections, sanitary waste disposal, a self-contained kitchen and confidence that their possessions are secure when they are not at home (Campbell Mayer (2011)).

However, most Kampala residents cannot afford this. Results from the National Household Survey from 2005/06 indicate that muzigo, which is the typical housing structure for slum areas, accounted for 64 per cent of the dwelling units in Kampala (Uganda Bureau of Statistics (2010)).

Most people that have the possibility to build a house build it incrementally over time. Building incrementally can also be a way of investing money instead of having the money on a bank account in times when interest rates are negative. They are often not following regulations and many houses get abandoned before they are finished (Interview with the director of the Ministry of Lands, Housing and Urban Development). A typical example of a house that is built incrementally and left unfinished for several years is shown in the picture below 5.1.

Many new developments in Kampala are financed by Ugandans living abroad, but even such buildings often use an incremental process. Outside Kampala, along the major roads, especially the roads to Entebbe and Jinja, there are also growing demand for housing. After a plot has been acquired, an architect will be employed to supervise construction. The purchaser will buy the materials and employ sub-contractors to do the building works. The building process may still take several years and is determined by when the purchaser is able to pay for successive stages of the construction process. When the houses are completed, they are often rented out.

There are different categories of companies that are engaged in selling land and/or real estate to individuals, companies and institutions. The most recognized are formal companies that have enough capacity to buy land, develop it and sell to customers of different categories. Some of the companies also construct houses. More expensive houses that have been constructed by developers can be found in Kampala and its surroundings. Companies that develop larger parcels for the Kampala market usually find land at a long distance from existing road and utility networks, requiring major investments in infrastructure. The largest ones include National Housing and Construction Company (NHCC), Akright Projects Limited, Jomayi Property Consultants Limited and Kensington. International companies are starting to look at estate development in Uganda.

Photo: Annika Nilsson

Figure 5.1: A typical example of incremental building.

Most properties constructed by developers are built individually and to order. The houses are built when each plot is purchased and the building contract is agreed. One of the most established developers is Akright Projects Ltd. This is a private company that sells serviced plots, builds to order, provides shell houses and sells a limited number of completed houses, mainly for upper income earners. Constructing affordable housing has proven to be difficult, the manager of Akright explains. The construction of individual houses depends on the speed with which payments are made, which makes the management of projects difficult. The situation has been made worse by the lack of a regular structured dialogue between the government and the private sector (Interview with the director of Akright Projects Ltd.).

Non-government organizations have made efforts to deliver affordable housing in the Kampala region. They are often dependent on various forms of subsidies which makes it difficult to mobilize housing programs on a larger scale (Campbell Mayer (2011)). In the past, housing co-operatives in Uganda were subsidised internationally and exhibited a high degree of dependency as a result. Many of these organised groups collapsed when external funding was withdrawn following structural adjustment programs in the 1980s (UN-habitat (2015)).

For example, the international mission-driven organization Habitat for Humanity has built many houses around Kampala, but the organization nearly collapsed in 2006. The organization is still running, although on a smaller scale, and has introduced a micro-finance programme that helps people to make investment in their housing, for example by installing electricity or painting walls. The picture 5.2 shows an example on a woman that has got a housing microfinance loan from Habitat for Humanity to paint the wall of her house. As shown in the photo, she has a shop on the short side of the house.

Photo: Annika Nilsson

Figure 5.2: An example on a house painted with the support of a housing microfinance loan.

Before 2006, Habitat for Humanity worked with with Ugandans who already owned land and that could document a somewhat regular income in order to construct a simple house at a very low cost. However, the programme failed to screen potential partners, since many of the clients who qualified for a house had exclusive family connections with local authorities or even employees at Habitat for Humanity, while other qualified applicants were excluded from the project. Another problem was that there were informal agreements with customers who were accepted to receive a new house. These agreements were later difficult to enforce when the customer had moved in to the house and refused to pay the house (UN-habitat (2015)), (Personal interview with the manager of Habitat for Humanity in Kampala).

In a bid to improve the living situation of low income earners, Uganda Slum Dwellers Federation together with the Ministry of Lands and Housing and Urban Development have come up with an initiative to improve planning and housing. The Shelter and Settlements Alternatives, Uganda Human Settlements Network, is a network that brings together all stakeholders in the human settlements sector to more effectively address constraints to adequate housing, especially for urban slum dwellers.

A project started in 2002 in a slum area called Kisenyi. The project organized people in the community to save from their incomes and share costs of building. The project is also meant to teach slum dwellers on how to best use their small space with the small resources they have. The strategy is to share land and show the ministry, or any land owner, that they are able to manage land if it is given to them. The idea is low cost housing but not low quality housing. The idea is also to empower the slum dwellers economically. The main problem with these kind of programmes in Kampala is people's difficulty in securing tenure (Athuire (2012)).

5.1.2 Housing deficit and housing conditions

The National Household Survey from 2005/06 shows that Uganda had a housing deficit of 550 000 units, according to the definition used in the survey. With the rapid rate of urbanization and current pace of housing construction it is estimated that by 2025, Uganda will have a housing shortage of close to 8 million units, of which 2.5 million will be in urban centres and one million in Kampala (Uganda Bureau of Statistics (2010)), (Uganda Bureau of Statistics (2006)).

According to the National Household Survey from 2012/13 the majority of the Ugandan population, 77 per cent, lived in owner occupied dwellings while 17 per cent lived in rented units and six per cent lived in free dwellings (Uganda Bureau of Statistics (2014c)). Disaggregation by sub-region shows that Kampala had the lowest percentage of households living in owner occupied dwellings (22 per cent) and the highest percentage of households occupying rented dwellings (69 per cent) (Uganda Bureau of Statistics (2014c)). Looking at the development of rented status over the years 1992/93 to 2005/06 and 2009/10 in Kampala, there has been an increase from 14 per cent in 1992/93 to 57 per cent in 2005/2006 and to 69 per cent in 2009/10 (Uganda Bureau of Statistics (2010)), (Uganda Bureau of Statistics (2014c)).

Uganda has made good progress in providing access to basic services such as water, sanitation, and health in large urban areas (The World Bank (2015b)). According to the United Nations Human Development Index, which gives a broad definition of well-being, living standards in Uganda are twice as good as they were two decades ago. Uganda's HDI increased from 0.281 in 1990 to 0.422 in 2010, compared to the Sub-Saharan African region, which increased from 0.293 in 1980 to 0.389 in 2010. This places Uganda above the regional average. Yet living standards remain very low because Uganda's HDI in 2010 ranked 143rd out of 169 countries with comparable data (UNDP (2013)). However, smaller urban settlements and rural areas still often have very limited access to basic services. The World Bank has warned that Kampala could turn into a slum by 2025 if planning authorities do not act fast enough (The World Bank (2015b)). Due to the large housing shortages, many urban dwellers take up residence in informal settlements. It is estimated that 85 percent of the city's low income population lives in slums with high disease and mortality levels, much higher than most East African countries (The World Bank (2015b)).

By 2013, it was estimated that almost half of the residents of Kampala had access to piped water, compared to one fourth of residents in other big cities, and one tenth of residents in small towns in Uganda. Similarly, 79 percent of residents of Kampala had access to electricity for lighting, compared to 41 percent of residents in other big cities and 25 percent of residents in all towns. Overall, not only are there significant differences in the level of access to basic services between rural and urban areas, there are also significant differences between Kampala and other urban areas (The World Bank (2015b)).

Informal settlements in Uganda are often characterized by shabby living conditions. They lack basic waste management facilities, have poor drainage and sewerage, use unhealthy sources of energy, and have no access to affordable and reliable sources of water and sanitation facilities. In these places, roads are unpaved, narrow and poorly structured, while social services and recreational facilities such as gardens and play grounds either do not exist at all or are grossly inadequate to support a sense of neighborhood in a community (The World Bank (2015b)).

Although the urban poor are far more vulnerable to market shocks than the rural poor due to their dependence on the cash economy they are not included in poverty reduction strategies in the Poverty Eradiction Action Plan (UN-habitat (2015)).

5.1.3 Real estate and links with the banking sector

Uganda's real estate and housing finance sector has undergone transformation and growth over the last fifteen years. Since the year 2000, the mortgage market has grown from almost nothing Boleat (2005)).

The government owned HFCU was the only provider of long-term mortgage finance in Uganda until 2002. This can mainly be explained with the environment of political turmoil and economic instability.

By 2011 there were five commercial banks that provided long-term housing finance, namely Housing Finance Bank, DFCU, Barclays, Standard Chartered and Stanbic Bank Uganda Limited. Housing Finance Bank and DFCU Bank are the largest providers in the mortgage market. DFCU Bank holds about 12 per cent of the total mortgage portfolio and HFB over 50 per cent. They partly source their long-term funds from the National Social Security Fund (NSSF). The NSSF is a quasi-government agency responsible retirement funds from employees of the private sector in Uganda. (Kalema and Kayiira (2008)).

Housing Finance Bank was founded in 1967 as a housing finance company and became a fully licensed commercial bank in 2008, having acquired a commercial banking license from the Bank of Uganda. The bank is the leading mortgage lender in the country (Kalema and Kayiira (2008)), (Boleat (2005)). DFCU Bank was established in 1964 as the Development Finance Company of Uganda. DFCU acquired the Global Trust Bank in 2000 and thereby transformed itself into a commercial bank. Before 2006, the bank focused on meeting the banking needs of only large corporations and high-net-worth individuals, but now it has a broader focus (Boleat (2005)).

Barclays opened in 1927. Upon incorporation, the bank's stock was 51 percent held by Barclays and 49 percent held by the government of Uganda. By 2001, the bank had become a wholly owned subsidiary of Barclays (Kalema and Kayiira (2008)), (Boleat (2005)).

Stanbic Bank Uganda Limited was founded in Uganda as the National Bank of India in 1906. In February 2002, Standard Bank acquired 90 percent shareholding in the Uganda Commercial Bank, the government-owned bank. The new owners merged their new acquisition with their existing Stanbic Bank (Uganda) Limited to form Uganda's largest commercial bank by assets and branch network. In 2005, the government of Uganda divested its ownership in Stanbic Bank (Uganda). Standard Bank also floated 10 percent of its shareholding at the same time, reducing their ownership to 80 percent (Boleat (2005)), (Kalema and Kayiira (2008)).

Housing has become one of the primary growth sectors in Uganda. Over the period June 2009 to June 2014, the share of real estate activities to GDP averaged 5.8 percent. In this period, real estate activities grew at an annual average rate of 6.0 percent, which is higher than Uganda's average GDP growth over the same period. Real estate has also become increasingly important for the lending of Ugandan banks, as explained in previous chapter, Chapter 4.3.3. As of June 2014, the real estate sector had the largest share of bank lending at 23.2 percent of total bank loans (Bank of Uganda (2014b)).

Prior to the financial crisis in 2009, the attainment of low and stable inflation was considered sufficient to ensure macroeconomic stability. However, it is now recognized that risks to financial stability can build up even when inflation is under control, for example risks which emanate from lending and asset price booms in the real estate sector (Kasekende (2014)). The increasing importance of real estate activities in the Ugandan economy has led to that the Bank of Uganda and the Bureau of Statistics has started to compile real estate price indices. Uganda Bureau of Statistics have collected data for three real estate price indices: Residential Property Price Index, Land Price Index and Commercial Rent Index. The indices cover the period from September 2009 to 2014. The primary objective of collecting this data is to inform macro-prudential and monetary policy, but also to facilitate the analysis of risks for real estate busts (Bank of Uganda (2014b)).

The Residential Property Price Index covers the period from September 2009 to June 2014. This index has increased by 115 per cent between the base year of June 2009 and June 2014. This growth was attributed to large increases in prices of residential properties in the Central Division, Makindye and Nakawa, by 271, 120 and 135 percent respectively. There was also a significant quarterly increase of 105 percent in residential house prices between March and June 2013, and a 30 percent rise in the residential price index between June 2013 and June 2014. This rise in house prices was still much lower than the high increases observed in the first three quarters of 2013/14 (Bank of Uganda (2014b)).

The land price index (LPI) measures the percentage increase of the average price of buying a unit of land for commercial or residential purposes (Bank of Uganda (2014b)). The data indicates that the LPI increased by 225 percent between the base period September 2009 and June 2014. The increase in the LPI over this period was driven mostly by prices of land in Kawempe and Nakawa Divisions of Kampala and Entebbe Municipality. Furthermore, according to the aggregate Land Price Index, the price of land increased by nearly 35 per cent between June 2013 and June 2014, which was lower compared to the increase of approximately 85 per cent between June 2012 and June 2013 (Bank of Uganda (2014b)). The Land Price Index (LPI) for greater Kampala increased by 33.6 percent between June 2013 and June 2014. Campell (Campbell Mayer (2011)) also reports high increase in land prices with an example from Nsamabya area, close to the city center of Kampala, where a 1/4 acre of land was sold for USD 15 000 in 2002 and by 2008 the same parcels were sold for USD 60 000. During the years 2006 to 2013, prices on properties around Kampala increased by about 100 per cent annually. The price of a plot developed by Jomayi Property Consultants rose from about UGX 10 million to UGX 50 million in five years (Batte (2016)). In spite of these developments access to housing loans remains limited. According to estimates, in 2001 only 1 percent of 5.2 million Ugandan households could afford a mortgage loan through commercial banks (Kalema and Kayiira (2008)). Recent estimates suggest that almost two per cent of the population can afford a long-term mortgage loan. The Mortgage Bill is expected to encourage more providers of mortgage loans (UN-habitat (2015)).

5.2 Land as collateral for loans

A mortgage can be defined as a transaction whereby an interest in land is given as collateral for the repayment of a loan given to a creditor. I will in this section describe the land system in Uganda in order to give an understanding of the possibility to use land as security for a mortgage loan.

5.2.1 The Land Reform Decree, 1975

Land tenure refers to the system in which land is owned, occupied, used and disposed of within a community (Brandao and Feder (1996)). Uganda's formal land tenure system was established by the British during the country's colonial era. Since independence (1962) Uganda has reformed its formal legislation regarding property rights several times.

Until 1975 there were four types of land tenures; Freehold, Mailo, Customary and Leasehold. In 1975, under the Idi Amin presidency, the government attempted to abolish ownership rights and make all land public under the jurisdiction of the government to be administrated by the Land Commission. Furthermore, the government decided that access would henceforth be on the basis of leasehold tenure for 99 years for individuals under the Uganda Land Commission (ULC) and for 199 years for bodies such as the church and other charitable organizations.

However, in practice, the former systems of land tenure continued to exist and by 1995 when the new constitution came into effect, there were four categories of land tenures in Kampala: freehold land (mostly religious and educational institutions), mailo land and Kabaka-ownership (owned by the King or chiefs of Buganda) and public land (administered by the KCC which could grant leasehold tenure). These tenure systems are overlaid by a variety of formal occupancy categories and informal access mechanisms that include land borrowing, squatting, illegal subdivisions and purchase and sale of informal use rights (Mono Wabineno Oryema (2016)).

The decree also abolished all laws that had been passed to regulate the relationships between landlords and tenants in Buganda, Ankole and Toro. Outside those areas, customary land users became tenants at sufferance of the state. The rationale was to free the land of multiple layers of rights in order to foster economic development. The Decree did not say anything about the relation between peasants and landlords. This resulted into evictions of tenants by landlords, and in some instances massive invasions of land belonging to absentee landlords.

5.2.2 Land Act of 1998

The Land Act from 1998 is the most important law nowadays that affect land tenure in Uganda. The two most important issues covered by the Land Act are ownership/tenure rights and land administration, which are described below.

The 1998 Land Act Cap. 2004 provides the administrative legislation needed to put the land provisions of the 1995 Constitution into practice. It effectively repeals the Land Reform Decree of 1975, and stipulates that land will henceforth belong to the citizens of Uganda and the ownership of land shall be based on the four land tenure systems that were existing before 1975. Under the Constitution of 1995 and the implemented Land Act of 1998, most land in Uganda is under freehold, mailo, public land under customary tenure and leasehold tenure. The aim was to free the land from multiple layers of rights in order to foster economic development (Foley (2007a)).

Section 40 requires that before any transactions take place of land on which a family lives and/or provides its subsistence, the spouse and adult dependent children should be consulted. The Land Act, in accordance with the 1995 Constitution, also stipulates (section 28) that any customary practices that deny women or children use of land are void. The Local Land Committees set up in each parish are to ensure that these provisions are followed and that vulnerable groups are protected (Lastarria-Cornhiel (2003)).

The District Land Boards, including the Land Board of the Kampala City Council (KCC), administer public lands on behalf of the Uganda Land Commission. The Land Boards must approve every land transaction (Foley (2007a)).

The basic features of the four land tenures systems are described below. For a more detailed description of the different land tenures and the land rights for each tenure see (Mono Wabineno Oryema (2016)).

Freehold tenure: Freehold tenure may involve either a grant of land in perpetuity. This is similar to freehold tenure in other countries and gives absolute rights of ownership. Only citizens of Uganda are entitled to own land under freehold tenure. Non-citizens may only lease land for a period up to 99 years Foley (2007a). In practice, little land is held on a freehold basis. There is, however, provisions for former government land and customary land to be converted to freehold.

Mailo tenure: Mailo land is confined to Buganda (which covers the major urban areas including Kampala) and follows the 1900 agreement between the British government and the chiefs of Buganda. Half of the land was allocated to chiefs and other notables in perpetuity and this land has subsequently been subdivided. Individual parcels of land can be registered and certificates of title issued. The constitution and the Land Act formalised the nature of mailo land.

The Land Act 1998 treats mailo tenure as almost identical to freehold tenure. The only significant difference is that mailo owners should not use these powers against the interests of customary tenants, bona fide or lawful occupants. Bona fide tenants are defined as tenants who had occupied the piece of land unchallenged for more than 12 years. Before a mailo landowner can sell and/or develop land he/she owns, bona fide tenants who have settled on the land have to be properly compensated and resettled. Bona fide tenants on mailo land are also recognized as legal owners with rights to sell and develop the land but in consultation with the mailo landowner. This provision was introduced due to concerns about possible mass eviction of thousands of people who were occupying mailo land as customary tenants or squatters at the time when the Act was passed (Foley (2007a)).

Buganda is the fertile central area where Kampala is located. Before mailo land in Buganda become privatized it was occupied by smallholders under customary tenure, but their rights were not legally recognized. The mailo owners permitted these peasants to maintain possession of the land, the so called *kibanja land* they occupied. Kibanja holders thus became tenants on private property. Mailo owners were considered lords of their area and their tenants were their servants. In the twentieth century, through various legislative twists, the security of tenants have first been strenghtened, then weakened and finally eradicted. However, the tenants have not been evicted. These Kibanja rights nowadays create legal uncertainities over land as a result of tradtional land rights (UN-habitat (2015)), (Bosworth (2003)).

Customary tenure: Customary tenure refers to a system of land holding governed and regulated by customary rules and in the majority of cases sanctioned by customary authorities such as council of elders, village chiefs and the village headman. These authorities have no power to enforce their decisions except through social pressure. Figure 5.3 shows a typical proof of customary right to land, written by hand in local language. The 'traditional' rules of the people have legal force and this would include matters concerning the rights of the elderly or children, rights of passage through land, rules about borrowing and lending land, and about selling land. The constitution empowers all Ugandan citizens owning land under customary tenure to acquire certificates of ownership. The Land Act 1998 also recognizes the right of customary owners of land to obtain mortgages using customary certificates of ownership (Foley (2007a)).

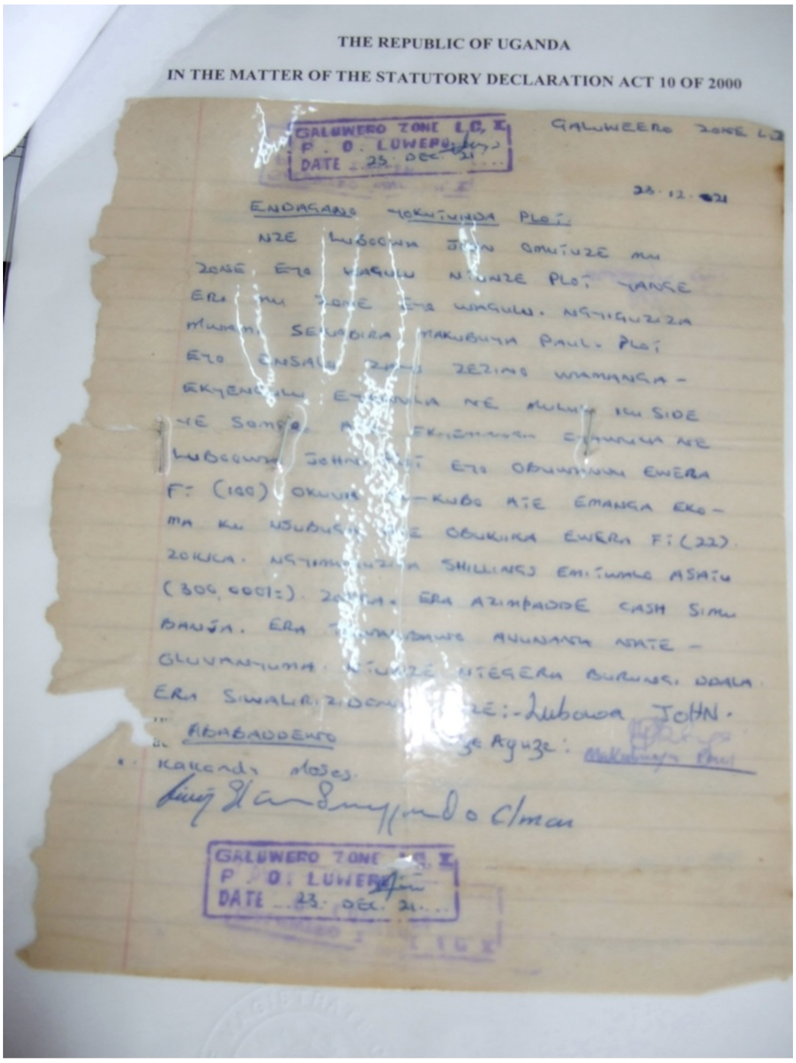
In Uganda, customary land tenure, mailo land, and freehold are similar in that ownership of land under all three systems is in perpetuity, *i.e.* exists forever (Foley (2007a)).

Leasehold tenure: Leasehold tenure is a form of tenure whereby one party grants to another the right to exclusive possession of land for a specified period, usually in exchange for the payment of rent. Any owner of land in Uganda, whether through freehold, mailo or customary tenure may grant a lease to another person. In the case of non-citizens this lease is for a maximum period of 99 years. The Land Act 1998 does not specify any development conditions on the leasing of land, or that it shall be used in any particular way.

5.2.3 Distribution of land tenures

The distribution of the different land tenures in Uganda is shown in the Table 5.1. As shown, most of the land in Uganda is held under customary tenure. The majority of the rural population, 70 per cent, live on customary land compared to 37 per cent per cent of urban population. The distribution of mailo and freehold land is similar in urban and rural areas. In the Central region (excluding Kampala) only 2.6 per cent of the population is living on Customary land (Ministry of Lands and Development (2010)).

In Kampala, more than 52 percent of the land is held under mailo tenure, about 30 percent is public land administered by the Kampala City Council (KCC) and leased to private interests, about eight percent is owned by the government for its use, and about seven percent is freehold and owned by institutions. In the Kampala suburbs the share of land held under mailo tenure is even higher (Giddings (2009)). Much of the Mailo land and kabakaship land is occupied by kibanja holders (UN-habitat (2015)). Informal slum settlements in urban areas are mainly on Mailo land, mainly because of the privileges it was accorded at the time of allotment. Some settlements are on former public land where customary tenants have taken over as



THE REPUBLIC OF UGANDA

IN THE MATTER OF THE STATUTORY DECLARATION ACT 10 OF 2000

GALUWERO ZONE L.C. I
P. O. LUWERO
DATE 23. DEC. 21

Photo: Annika Nilsson

Figure 5.3: An example on proof of custumary right to land.

owners due to the abolition of statury leases. In such cases Kampala District Land Board is obliged to issue them Freehold titles against their customary claims.

5.2.4 Land registration

Land registration can be defined as a process of having rights in land formally recorded in a land register. The Ministry of Lands, Housing and Urban Development maintains the official Land Registry for the entire country. To implement the land administration Uganda has been divided into zones with each having a Regional

Table 5.1: Land distribution by tenure and region [%].

Land tenure	Urban	Rural	Central (excl. Kampala)	Central	Eastern	North	West	Total
Customary	37.3	70.2	2.6	2.5	8.0	92.0	4.0	68.6
Freehold	0.7	0.3	2.0	0.0	8.6	5.5	6.5	18.6
Mailo	8.4	8.8	5.8	5.8	0.6	0.4	4.0	9.2
Leasehold	9.6	0.7	0.1	7.0	2.0	2.1	3.1	3.6
Total								100

Source: Giddings (2009)

Office for land administration services as a way to take these services closer to the people (Ministry of Lands and Development (2010)), (Mono Wabineno Oryema (2016)).

Uganda's registration of land titles is based on the Australian Torrens system of land registration that was introduced by the Registration of Titles Act 1924 Foley (2007a). The Torrens system has two essential features: i) Interests in land are created or transferred by registration and not by execution of documents, and ii) indefeasibly of title, which means that once land is registered the title is guaranteed, although there are some exceptions to this general rule.

When the Registrar has entered the instrument in the Register Book, the person named in the certificate is the registered owner. A certificate shall be evidence of title, and all its particulars, and the courts are obliged to treat it as such. This provision is valid over all other unregistered interests or claims. This principle of 'indefeasibly' was intended to help create one central land registry and simplify and expedite future land transactions. The Act applies automatically to mailo, freehold and leasehold land (Mono Wabineno Oryema (2016)).

Owners of land under customary tenure who wish to register their lands under the provisions of the Act must first convert their tenure to freehold. For a detailed description of the content and identification of registers for the different land tenures see (Mono Wabineno Oryema (2016)).

The procedures for real property transactions are not standardized (Mono Wabineno Oryema (2016)). Therefore the buyer of land has to carry out various controls before buying the land in order to assure that the transaction is not fraudulent. Information that is of crucial importance for the buyer is the true ownership of the land, the size of the land, whether the land has any encumbrances and claims like mortgages, caveats, easements etc. If the land is registered this information can be obtained at a cost in the Land Registry. When the land not is registered the buyer has to get information from other sources, like neighbours, relatives, and the LC chair persons of the area. Furthermore the buyer has to make sure that the land not is occupied by squatters or that there are no conflicts on the land, something that is common in Uganda and that can be very difficult and expensive to solve. The buyer must also contract a surveyor that confirms the location and size of the land stated by the land registry or claimed by the land owner. After the transaction of the land has been completed, the new owner can register the land in her or his name. For a detailed description of real property transactions and land registration see (Mono Wabineno Oryema (2016)).

Although the number of registered land titles has increased since the 1980s only 20 per cent of the land in Uganda is registered (Ministry of Lands and Development (2010)), (Mono Wabineno Oryema (2016)). As shown in Table 5.2 nearly all registered land is located in the central region (Ministry of Lands and Development (2010)).

Table 5.2: Land title distribution by tenure and region, (number)[%].

Region	Mailo/freehold	Leasehold
Central	45,470 [98]	23,624 [50]
Western	816 [1.75]	10,888 [23]
Eastern	87 [0.19]	8,338 [18]
Northern	5 [0.01]	3,897 [8]
Totals	46,378 [100]	46,747 [100]

Source: Ministry of Lands and Development (2010)

According to the 2005 Poverty Reduction Strategy that is approved by the Government of Uganda the government will focus on improving the land registry and strengthening the land rights of the poor through systematic demarcation. Urban land reform is also supposed to impoove the urban housing market (UN-habitat (2015)). The Land Registry records and operations are being computerised under the The Land Sector Strategic Plan programme. The project cover rehabilitation of existing land records and upgrading of unsurveyed mailo titles, establishing a land information system and expanding the coverage (Ministry of Lands and Development (2010)). The registration of titles under mailo tenure has increased substantially. During the two year period 2007-2009 the registered mailo land titles increased from 457 to 871. Mortgages registered under mailo tenure increased almost threefold under the same period, from 5,304 in 2007/08 to 14,561 in 2009/10 (Ministry of Lands and Development (2010)). The photo 5.4 shows a typical example on how land titles traditionally have been stored in Land Ministry, but a digital system is now to be established.

5.3 Mortgage legislation

The Mortgage Act of 2009 (Government of Uganda (2009)) defines a mortgage as any charge or lien over land, or any estate or interest in land, in Uganda for securing the payment of an existing or future or a contingent debt or other money, or money's worth or the performance of an obligation. This includes a second or subsequent mortgage, a third party mortgage and a sub mortgage.

Photo: Annika Nilsson

Figure 5.4: A typical example of storage of land titles in Land Ministry.

A mortgagee means a person in whose favour a mortgage is created or subsists, and includes any person deriving title under the original mortgagee. The debt proprietor of the mortgaged land is called the mortgagor and the creditor is the mortgagee (Friedman et al. (1984)). A mortgagor thus means a person who has mortgaged land or an interest in land and includes any person from time to time deriving title under the original mortgagor, or is entitled to redeem the mortgage according to his or her estate, interest or right in the mortgaged property. A receiver means a person appointed by law to receive and preserve the property during the litigation. The secured sum with interest is the mortgage debt (Friedman et al. (1984)).

A mortgage created under Ugandan law does not transfer the land title to the creditor, but titled document is handled over to the mortgagee. Instead it makes the creditor the proprietor of the mortgage. The debtor thus remains the owner of the land, as long as the loan is following the repayment schemes. As well as being obliged to pay back the loan, the borrower is obliged to maintain and repair the property and grant the creditor the right to inspect the property at any reasonable time.

Mortgages should be officially registered under the Act, but Ugandan law also recognizes equitable mortgages as long as the certificate of title has been lodged with the Registrar. For an equitable mortgage to exist, the title must be deposited with the mortgagee (not the Registrar). There must be a clear intention to create an equitable mortgage, usually by the mortgagor signing a document of deposit (Foley (2007a)).

A mortgage deed is a contract or an agreement drafted by the bank showing the terms and conditions of the mortgage. A mortgage deed could be designed by the bank, or a firm contracted with the bank to draft a mortgage deed on it's behalf. For a detailed description of the steps for registering a mortgage, see (Mono Wabineno Oryema (2016)).

The Regulations require a mortgagee to take steps to inquire into the marital status of a mortgagor. The mortgagor must state by way of statutory declaration whether he or she is married or not. Where the property being mortgaged is a matrimonial home, the consent of the mortgagor's spouse must be obtained in order for the mortgage to be valid. The mortgagor and spouse are additionally required to attach certified copy of their marriage certificate or other evidence of marriage to the declaration of consent.

The rate of interest payable under a mortgage may be reduced or increased by a notice served on the mortgagor by the mortgagee. The mortgagor should be given not less than fifteen working days written notice of the reduction or increase in the rate of interest. The notice should state clearly and in a manner which can be readily understood, the new rate of interest to be paid. The amount secured by a mortgage may be reduced or increased (Government of Uganda (2009)).

5.3.1 Foreclosure

Foreclosure is a legal proceeding to terminate a mortgagor's interest in property, instituted by the lender (the mortgagee) to force a sale in order to satisfy the unpaid debt secured by the property (Friedman et al., 1984). The Mortgage Decree has determined that if a mortgagor breaks any term of the mortgage agreement, the mortgagee can pursue one or more of five remedies: i) action on the personal covenant, ii) take possession, iii) appoint a receiver, iv) foreclosure and v) sale (Government of Uganda (2009)).

The power of sale is the most important and common remedy for realisation of security under a mortgage agreement. The power of sale arises if the mortgagor defaults on payments of the mortgage debt for a continuous period of three months. In the previous Mortgage Act this period was only one month. The right to sell may be exercised without recourse to court where such right is expressly included in the mortgage agreement. Otherwise, the sale must be conducted with the sanction of the Court. In the case of customary land the mortgagee requires a court order, but otherwise the remedies are the same as for land which is registered (Government of Uganda (2009)).

Compared to the previous mortgage provisions, the registration of Titles Act (Cap 230), the mortgage act of 2009 resulted in a slight increase in the time, from 30 to 45 days, between the bank serving a notice of default and the bank being able to take further action. Before exercising the power to sell the mortgaged land, the mortgagee shall serve a notice to sell in the prescribed form on the mortgagor, and shall not proceed to complete any contract for the sale of the mortgaged land until 21 working days have lapsed from the date of the service of the notice to sell. This was not the case in the previous Mortgage Act where there was no further notice necessary after the 30 day notice.

The sale requires a colour advert in a newspaper, with a picture of the mortgaged property and information on the time and place of sale, and the time at which the property may be viewed by the public. A person who does not follow this regulation commits an offence and is liable on conviction to a fine not exceeding 72 currency points, or imprisonment not exceeding three years, or both (Government of Uganda (2009)), (Interview MAKKS advocates).

5.4 Methods for screening and enforcing bank loans in Kampala

The reason why small loans have expanded more than large loans can according to the paradigm of imperfect information be explained by financial intermediaries using different methods in screening, incentivising and enforcing loans as explained in the theoretical framework, see Chapter 3.2. I will in this section present the methods for screening and enforcing loans applied by financial intermediaries in Kampala. The presentation focuses on loans available to individuals in Kampala and to some extent group loans, but excludes enterprise loans and agriculture loans.

Banks in Uganda are divided into four tiers, based on capital requirements, as described in Chapter 4. The description here will follow that division of banks. Loans provided by financial intermediaries regulated under Tier 1 will be more thoroughly described since they include the types of loans that are of special interest in this thesis when analysing the supply and demand for different types of loans. The information was gathered from interviews with bank officials and extracted from loan folders collected in banks in Kampala, if no other sources are cited.

5.5 Tier 1: Large loans (formal)

Financial intermediaries classified under Tier 1 include commercial banks, other banks, credit institutions and microfinance deposit-taking Institutions (MDIs), that are authorized to hold checking, savings and time deposit accounts for individuals and institutions in local as well as foreign currencies. Commercial banks are also authorized to buy and sell foreign exchange, issue letters of credit and make loans to

Table 5.3: Basic requirements of loans from formal financial intermediaries, Tier 1-2.

Screening and monitoring	**1a) Long-term mortgage loan**	**1b) Salary loan (large banks)**	**2a) Salary loan (microfinance org.)**	**1c) Short-term mortgage loan**	**1d) Centenary Jomayi facility**	**1e) Centenary Home Improvement**	**1f) Centenary Salary Loan**
Age							
Max. 60-66 years	✓						
Max. 55 years		✓					
Min. 21years	✓	✓	✓	✓	✓	✓	
Income							
Formal regular salary	✓	✓	✓		✓	✓	✓
Formal/informal income			✓	✓	✓	✓	✓
Min. UGX 150 000		✓					
Collateral							
Land with land title	✓			✓	✓	✓	
Land without formal land title						✓	
Amount							
Max. UGX 800 m. and Min. UGX 5 m.	✓						
LTV 80% for purchase of property	✓				✓		
LTV 70 % for construction (shell finished)	✓						
LTV 60% for urban land, max UGX 80 m.	✓						
Max. UGX 120 m.		✓		✓			
Max. UGX 100 m. and Min. 20 m.					✓		
Max. UGX 50 million		✓					
Max. UGX 25 m.							
Max. UGX 15 m./ Min. UGX 100.000						✓	✓
Max. UGX 20m. and Min. UGX 3 m.		✓					
Possibility to top up the loan after 50 of principle		✓					
Duration of the loan							
Min. 5 years / max. 20-25 years	✓						
12-72 months		✓					
Max. 60 months				✓			
Max. 36 months		✓	✓	✓	✓		
Max. 24 months						✓	✓
Repayment							
Max. 35-50 per cent of monthly net income	✓						
Regular flexible repayment			✓	✓	✓	✓	✓

Source: Bank folders

depositors and non-depositors. These commercial banks are supervised by the Bank of Uganda. Although described somewhat differently among the banks, there are three main types of loans provided for private persons; long-term mortgage loans, salary loans, and short-term secured loans and they will therefore be described in this chapter.

The requirements for obtaining different types of micro-loans from Centenary Bank will also be described due to its somewhat different methods in screening clients and enforcing loans and also because one of the empirical surveys on the demand side is carried out in the Centenary Bank, see Chapter (6). The Table 5.3 includes a brief summary of the screening mechanisms of the loans provided by banks regulated under Tier 1 and to some extent under Tier 2 that are described below.

5.5.1 Long-term mortgage loans – home loans (1a)

Long-term mortgage loans are also often referred to as home loans. In this thesis a long-term loan is defined as a loan with more than three years duration. Long-term mortgage loans were at the time of my survey offered by five commercial banks, namely Stanbic Bank Uganda Limited, Standard Chartered Bank Uganda, Barcleys Bank of Uganda Limited, Housing Finance Bank and DFCU.

Mortgages are given to cover the cost of: *i)* purchasing a house, *ii)* incremental construction (a shell must be finished before taking a loan for incremental construction), *iii)* renovation, and *iv)* for a so called growing house mortgage. The minimum requirement for a growing house mortgage is that the customer must first own a plot of land and the initial loan is basically for construction of the core-housing unit or shell house with roofing completed.

Screening requirements

Capacity to pay back the loan and make down payments

The minimum and maximum age are 21 years and 66 years. One of the major lending requirements for qualifying for a long-term mortgage loan is that the borrower's income level is high enough. Some banks says in their public information that they target employees and directors of reputable companies and well established SMEs that are purchasing residential property for owner occupation. This is illustrated in the photo below that shows an advertisement for long-term mortgages close to luxury hotels in the city-center of Kampala, see 5.5.

For those employed in the formal sector (public or private), employment should be on permanent terms for the period in which the loan is repaid, and the borrower must have a verifiable income for the past 12 months. If the income is not sufficiently high, additional security is accepted by some banks. It has been discussed that informal income should be considered, but still only one bank accept informal income to some extent. Applicants also need to have an account in the bank for a

Photo: Annika Nilsson

Figure 5.5: Advertisement of long-term mortgage loans.

minimum period of six months and the account cash flow must prove the client's ability to repay the mortgage loan as well as the down payment required.

Land as collateral

Another main requirement for qualifying for a long-term mortgage loan is land and/or real property as collateral. A standard loan to value (LTV) ceiling is 70-80 percent of the appraised value of the property. A LTV ratio of approximately 80 per cent is offered for purchase of residential units, and approximately 70 per cent LTV ratio for estate development. For urban land purchases the LTV-ratio is 60 per cent. The land must have a valid land title. The copy of the title should not be more than one month old. The property should be a single-family unit located in serviced urban and peri-urban area in Uganda. A valuation by a valuer approved by the bank is required, as well as approved building plans. The duration of the loan is also used as a screening mechanism. An individual is expected to make monthly instalments not exceeding 35-50 per cent of confirmed monthly salary. The maximum duration of the loan is:

- 20 – 25 years for residential units
- 10 years for incremental construction
- 5 years for urban land

Repayment of the loan is made through equal monthly repayments plus interest and insurance premium. The repayment conditions are normally subject to change on an individual basis. In the case of a property purchase, the first repayment falls due on the first month following the disbursement date. For properties in construction, the first repayment falls on the first day of the month following the expiry of eight months construction period commencing on the date of the first advance. In 2010 interest rates ranged between 16 and 19 percent, or the prime interest rate plus 1 per cent. Interest rates vary depending on the purpose of the loan, *e.g.* for purchase of residential house it was 16 per cent, for estate development 17 per cent, and for an urban plot 19 per cent. Interest rates might of course differ between banks and customers. The bank insures the property against fire and other forms of damage at the property owners cost.

Fees:
The applicant pays a non-refundable application fee of 0.25 per cent of the loan amount applied, but with a minimum of UGX 200 000. The title search fee is UGX 50 000, and opening of boundaries cost UGX 200 000. Valuation and inspection fees will be as follows on submission of the application form: UGX 400 000 UGX for properties whose value is below UGX 500 million, UGX 800 000 UGX for for properties whose value exceeds UGX 500 million, but less than 1 billion and 0.1 percent of the value for properties whose value is above 1 billion. There is also a facility fee of 1.25 percent of the loan amount. The borrower also covers the costs of preparing and registering the mortgage, and there is a stamp duty of 1 per cent on market value on the transfer of a property purchase and 0.5 per cent stamp duty on mortgage and finally external lawyers fee of UGX 413 000.

General requirements:
- Original ID and copy of passport
- 3 passport size photographs
- Copy of utility bill for current residential address
- Certified bank statements for the last 12 months
- Financial and/or management accounts for self employed applicants
- Copy of land title
- Valuation report (to be done by the bank's approved valuer after approval)
- Sales agreement (for customers buying property)
- Approved building plans
- Spouse consent - this should be a declaration of martial status of the borrower coupled with a marriage certificate if married and mortgaging matrimonial property
- A valid identification of the borrowers spouse and passport photograph of the borrowers spouse
- Photocopy of the financial card, or fill in the Credit Reference Bureau form for clients that don't have financial cards
- Proof of residence
- Photographs of the property both internal and external

- Applicants purchasing property need to avail the new tax-payer identification number as a directive by Uganda Revenue Authority for purposes of effecting transfer of property in their names.

Foreclosure

If the borrower can't meet the repayments, for example due to losing the the job, the bank must be informed immediately. The borrower is then given 90 days to continue repayments. If this is not possible, the customer may need to sell the property.

In the event that a person dies or get permanently disabled before completing the repayments there is a mortgage protection policy. In case of death the insurance company pays off the loan. There is a free cover limit of up to UGX 140 million.

5.5.2 Salary loans (1b)

Salary loans are often marketed by saying that customers can borrow money quickly and get money directly, approximately within 3 days. I will describe the main requirements of salary loans offered by the banks that also offer long-term mortgage loans, because their products are targeting the higher income clientèle, but also salary loans offered by microfinance institutions such as Centenary Bank. The reason for describing these banks' loan products is because they represent their products are similar to the other commercial banks regulated under Tier 1 banks and because they are related to the surveys on the demand side. The maximum loan amount and duration of the loan differ between banks and the salary of the customer. Examples on the amount, duration of the loan and salary requirements are:

(i) max UGX 120 000, 72 months, minimum salary 450 000
(ii) UGX 30 000-14 500 000, 36 months, net salary 2000 000
(iii) UGX 60 000 000, 12-60 months, (no guarantee from employer)
(iv) UGX 550 000- 6 000 000 (net salary UGX 150 000) and 20 000 000 (36 months)

One bank did not inform about amounts, but informed that the duration of the loans are 12, 24, 36 or 48 months.

Screening requirements

The borrower of a salary loan must be 21-60 years old and be able to prove that she or he has a regular income (certified copy of pay slip). The employment must be on permanent terms for a minimum period of one year. The employer must give an introduction letter on company letterhead assuring that the borrower has an employment and that the employee's salary will continue to be channelled through the bank where the employee has a salary loan. Additional security may be required on a case-by-case basis. Six months original bank statements from the current bank and 12 months from other banks are required as well as a proof of identification and residential address. Some banks require a maximum repayment of the loan of around 30- 40 per cent of net pay per month.

Enforcement

There are two types of commitments from the employer, a *guaranteed loan* and a *non guaranteed loan*. A guaranteed loan means that the borrowers' employer enters into a formal agreement with the bank to provide its employees with loans. The arrangement with the company sets a limit for the total value of loans to be provided to their employees. The company provides a guarantee that the loan will be repaid. If the employee loses the job, the employer can use the former employments benefits to pay off the loan.

For a non guaranteed loan the borrowers employer (company) does not guarantee or stand as security on loans to their employees. Instead a insurance cover the cost in case of the borrower dies or change employer. In case the borrower don't pay back the loan due to bad conduct the bank may either take the case to court in order to get the money back or the bank write off the loan making a loss.

5.5.3 Short-term secured loan (1c)

A short-term secured loan is offered by one of the banks offering long-term loans, namely Housing Finance Bank (HFB). The loan amount is up to UGX 120 million, or equivalent in dollars, depending on borrowers income. The loan shall be repaid within 36 months. Loan instalments are based on the borrower's source of income.

Screening requirements

The short-term secured loan is targeting borrowers with security and another source of income apart from the salary - for example employees on contract basis and those whose contractual periods are less than 3 years, or salaried earners with verifiable additional income like rent. If rental income is pledged as source of income, a tenancy agreement is required. The loan is secured by proof of titled land ownership in urban or peri-urban areas, treasury bills, treasury bonds or fixed deposits. The general requirements when using land as security are the same for this type of loan as for a long term mortgage loan, see Chapter 5.5.1.

Foreclosure

The rules concerning foreclosure are the same as for a long-term mortgage loan, see Chapter 5.5.1.

5.5.4 Centenary Bank - The Jomayi Facility (1d)

Centenary Bank is offering a product called *The Jomayi Facility* in order to buy land from Jomayi Property Consultants Limited. All plots have a minimum size of 50 x 100 feet. The price of most plots ranges between UGX 2 500 000 and UGX 5 000 000, but there are also more expensive areas. Jomayi Property Consultants Limited assists Centenary Bank with providing qualified customers for land purchase. Upon approval of the customers loan, Centenary Bank advances money to Jomayi Property Consultants Limited. Jomayi transfers title ownership to the customers and delivers title to Centenary Bank. The loan repayment period is 36 months. a good source of income that is sufficient for repayment of the loan.

Screening requirements

Capacity to pay back the loan and make down payments
Formal sources of income are preferred, but Centenary Bank is flexible and can accept informal sources of income. All loans are continuously monitored by the bank officers to assure that the loan will be repaid according to the repayment plan (Nakayiza (2013)). The borrower must be able to contribute of 20 per cent of the total cost of the project.

The borrowers must have a Centenary Bank account. Spousal consent is required where applicable. Clients have to pay mortgage registrations fees.

Land as collateral
Certificate of valuation of land from Jomayi Property Consultants Limited. The LTV ratio is 80 per cent.

Foreclosure

The enforcement proceedings are the same as for a mortgage loan provided by the other commercial banks regulated under Tier 1. However, before starting the foreclosure proceedings Centenary Bank is more flexible in rescheduling the loan so the borrower gets an opportunity to pay back the loan.

5.5.5 Centenary Bank - Home improvement loan (1e)

Centenary Bank is offering a short-term loan for the purpose of financing home improvements like erecting of perimeter wall/fence, installation of power and energy systems, kitchen improvement, improving water supply and sanitation systems and the building of latrines. The minimum loan amount is UGX 100 000 and the maximum loan amount is UGX 15 million. The maximum loan period is 2 years. Loan amounts can increase gradually as a reward for good past repayment if the borrower continues to demonstrate that she or he can utilize the funds for productive purposes (Nakayiza (2013)). Interest rate ranges around 28 per cent.

Screening requirements

Capacity to pay back the loan and make down payments
Formal income and formal land ownership are preferred but Centenary Bank is flexible regarding informal sources of income.

Land as collateral
Centenary Bank accept land without a formal land title. However, a loan secured on land without a formal title is charged 10 per cent more in interest rate compared to land with registered land title.

General requirements: Applicants must have an account in the bank and must be resident in the branch designated area of operation. Application fee UGX 5000.

Enforcement

If a borrower has serviced her or his loan half way, and later get problems in paying, the borrower can be excused for two years. The borrowers repayments are then rescheduled to make it easier for them to pay the remaining balance without the bank having to seize his or her collateral (Nakayiza (2013)). If a person fails to pay back after the Centenary Bank has tried all possible ways to help the client, like reducing monthly instalments, giving a grace period, and trying to recover from eventual guarantors, the security is then taken over by the bank. Properties can only be sold after the approval of the borrower. However, guarantors are seldom willing to pay for defaulters (Nakayiza (2013)). If a borrower cannot repay a loan used for buying land from Jomayi Property Consultants Limited, then Jomayi Property Consultants Limited assists the Bank to resell the property and recover the loan.

5.5.6 Centenary Bank - Salary loan (1f)

Centenary bank is also offering a personal salary loan. The minimum amount is UGX 100 000 and the maximum duration of the loan is 24 months. The bank promotes this as a loan that is processed fast and that loan repayments are flexible, based on the borrower's income

Screening requirements

The borrower must have a regular income. Salary, pension or business incomes are accepted. Employment must be on permanent terms for a minimum period of one year prior to application.

5.6 Tier 2: Medium loans (semi formal)

Tier 2 credit institutions include banks as well as credit and finance companies. Those companies are however not authorized to establish checking accounts or trade in foreign currency. They are authorized to take in customer deposits and to establish savings accounts. They are also authorized to make collateralized and non-collateralized loans to saving and non-saving customers.

5.6.1 Salary loans (2a)

Salary loans under tier 2 are marketed as loan processed in one day and for the purpose for consumption or to acquire assets. The maximum amount is 10 times net salary and there is a flexible repayment period of 6-48 months. Top-up loans may also be available. Interest rates are generally around 30 per cent.

Screening requirements

The borrower of a salary loan must have received at least two months' salary through the bank and the employer must provide a letter of employment. Copy of salary slip for the most recent month is also required. The bank also requires that the borrower has at least two guarantors who earn salary through the bank. Identity card issued by the employer is required by the bank, as well as copy of the utility bill (electricity or water), copy of appointment letter and copy of confirmation letter concerning credit record. Loans are insured and the insurance covers cases of serious injury or death.

5.6.2 Short-term loans secured on informal land ownership

Loans secured on informal land - Kyappa Loans. Short-term loans are offered to people owning land with no formal land title. The loan is for customers who want to expand acreage, or people who are deriving livelihood from the land and want to improve to increase income. The maximum amount is 10 times net salary and there is a flexible repayment period of 6-48 months. Top-up loans may also be available. Loan amounts start from UGX 100 000. Flexible payment modes are up to 10 months. Multiple disbursements and irregular payments are allowed.

Screening requirements

Short-term loan are offered to people owning land but with no formal land title. The customer must have an account with the bank and reside within the branch's operational area, or be a member of a partner Savings Association (SACCO) which borrows from the bank. The bank is thus using group pressure through a savings association to get the borrower to repay. The applicant must not have more than one outstanding loan facility with the bank at the time of application. Insurance covers in the case of serious injury of death.

5.7 Tier 3: Small loans (semi formal)

This class includes microfinance institutions which are allowed to take in deposits from customers in the form of savings accounts. Members of this class of institutions are also known as Microfinance Deposit-taking Institutions or MDIs. MDIs are not authorized to offer checking accounts or to trade in foreign currency. There are four microfinance institutions under Tier 3 in Uganda; FINCA Uganda Limited, Pride Microfinance Limited and UGAFODE Microfinance Limited. A housing loan product provided by UGAFODE will be described in the following paragraphs as an example. The non-government organisation Habitat for Humanity Uganda (HFHU) initiated in 2007 a partnership with the microfinance organisation Uganda Agency for Development Ltd (UGAFODE) to pilot a housing microfinance loan. HFHU injected UShs 330 million (USD 190,000) as a housing micro-finance fund to start the UGAFODE home improvement product and Habitat for Humanity offered technical assistance to UGAFODE. The partnership led to that UGAFODE Microfinance Limited now is offering a micro mortgage loan. The loan amount is approximately UGX 500 000 – 1 % core capital. The interest rate is 30 per cent for loans below UGX 10 million and 25 per cent for loans above UGX 10 million. The duration of the loan is 1-36 months.

Screening requirements

The micro mortgage loan target potential clients who want to purchase identified land, build/complete a commercial or residential house or renovate an existing property. The land must have a formal land title that serves as security for the loan. UGAFODE assists customers with registration of their land.

Enforcement

UGAFODE use their own staff for debt collection to increase the confidence in the credit organisation. Borrowers that face problems in paying back get the loan rescheduled in case their are not other options and the client not is a deliberate defaulter. A challenge around rescheduling of loans concerns staff and client education that ensure that the policy is clearly understood and applied.

5.8 Tier 4: Micro loans (informal)

Financial intermediaries classified under Tier 4 are not regulated by the Bank of Uganda. They are not authorized to take in deposits from the public. However, they may offer loans with or without collateral to the public. There are thousands of unregulated microfinance organisations in Uganda. Interest rates charged by Micro Finance Institutions (MFI's) and SACCO's are generally higher than those charged by commercial banks. According to the census on microfinance, the majority of SACCOs in both urban and rural areas charge an interest rate of 3 per cent per month, *i.e.* 42 per cent annually which is higher than those of commercial banks and MDIs, see Table 5.4, (Uganda Bureau of Statistics (2011)).

Table 5.4: Annual interest rates.

Loan provider	Interest rate [%]
Banks	27
SACCOs	42
MDIs	28
Credit	31
NGO/Company	34
Money lenders	49
Others	53

Source: Uganda Bureau of Statistics (2011)

The average loan size provided by MFIs has increased from approximately UGX 800 000 in 2007 to 1 200 000 in 2009, which means that the average loan size is above the per capita income (Uganda Bureau of Statistics (2011)).

Table 5.5: Average loan size in urban areas among MFIs, UGX.

Year	2007	2008	2009
Loan size	761 933	956 108	1 167 156
SACCO	186 400	229 500	309 100

Source: Uganda Bureau of Statistics (2011)

The median loan size for SACCO's has been increasing, but the growth rate remains below national per capita income, which indicates that it is small size loans. In 2007 the median loan size in urban areas was UGX 186 000 and in 2009 it was UGX 310 000 (Uganda Bureau of Statistics (2011)).

Screening requirements

There are different types of securities required by MFIs and SACCOs, such as titled land, untitled land, movable items, group guarantees and individual guarantor (Uganda Bureau of Statistics (2011)). The most common forms of security among MFIs are individual guarantors, buildings, equipments, and vehicles see Table 5.6. One should have in mind that there is a large variety of MFIs in different segments of the financial sector. Among SACCO's the most common form of security is an individual guarantor corresponding to 64 per cent, followed by buildings/equipment/vehicles, 57 %, and untitled land, 55 per cent. Other types of collateral accepted by SACCO's include chattel, group guarantee, blocked compulsory savings/insurance fund and titled land, see Table 5.6.

Table 5.6: Type of security among MFIs and SACCOs [%].

Type of security	of MFIs	SACCOs
Individual guarantor	64	64
Buildings, equipment/vehicle	61	57
Untitled land (Kibanja)	60	55
Other chattel items	46	43
Group guarantee	36	36
Blocked compulsory	36	35
Titled land	36	32

Source: Uganda Bureau of Statistics (2011)

Enforcement

There is no legislation concerning defaulters of unregulated microfinance organisations. According to the Microfinance census, microfinance institutions use more than one recovery method, as shown in the Table 5.7. The majority of microfinance institutions use loan tracking methods, attachment of the collateral and forcing the guarantor to pay to recover unpaid loans 5.6.

Table 5.7: Loan recovery method among MFIs.

Method	%
Loan tracking method	60
Attachment of the collateral	57
Forcing the guarantor to pay	57
Courts of law	47

Source: Uganda Bureau of Statistics (2011)

According to Solli (2015) it is common that defaulting customers of unregulated microfinance organisations are put in jail up to six months. Therefore due to the problem of flight restructuring of loans among unregulated financial providers are uncommon in Uganda. Borrowers who can't pay often run away to another town or change their name. They can hide in this way because there are no government identity cards or credit bureaus to help lenders find them. Fearing flight of borrowers, lenders react on the first late payment, even on the same day. Microfinance institutions often sell seized collateral such as household furniture on the side of the road, or in warehouses. Defaulters often have several creditors, and therefore, creditors are fast in catching defaulting customers before another lender catches them. Due to fear of tough tactics, borrowers flee when they realize they can't pay, and so the cycle escalates. In the case of group loans, the groups themselves often seize and sell delinquent borrowers' assets. This circumvent Ugandan law, which provides for sale by public auction (Order 22 Rule 70 (2) of Ugandan Civil Procedure (Solli (2015)).

5.9 Constraints in the supply of long-term mortgages

The previous section showed how financial intermediaries use different methods when screening customers and enforcing loans. This may explain why there is a dominance of short-term loans and that access to long-term mortgage loans is very limited. This is in spite of that Uganda according to the World Bank, legally has a system of land law and registration and mortgage law that should work well for a mortgage finance system (The World Bank (2009)). I will in this section analyse the constraints on the supply side for expanding the outreach of long-term mortgages loans in Kampala. The analysis follows the structure of the theoretical framework for expanding formal housing credits, see Chapter 3.3.

5.9.1 Screening requirements

When analysing the constraints in the long-term mortgage market the screening requirements of banks providing long-term mortgages will be considered, as explained in the previous Section 5.4.

Capacity to pay back the loan and make down payments
Banks principal requirements for providing a long-term mortgage loan is a verifiable income on a regular basis. Although the supply of long-term mortgage has increased, most applicants are denied such a loan due to too low income. A bank official said that approximately 40 per cent of applicants are rejected (Interview Housing Finance Bank). Although the number of banks that provide long-term mortgages has increased, the competition in the mortgage market is still low and the incentive to make mortgages more affordable are weak (Interviews with bank officials from different banks). Instead, bank customers would need to get the right qualifications, such as formalising their income. The possibility to get a mortgage loans can however be an incentive for bank customers to formalise their income (Interview, Stanbic Bank). According to an interview with one bank official, the risks related to the mortgage market are still quite high, and banks would need guarantees from the government in order to expand the market (Interview, DFCU).

The average mortgage loan size issued by commercial banks varies between banks. Most mortgages are in the range of around UGX 100 million to 500 million, followed by those over 500 million (Mono Wabineno Oryema (2016)). Due to the high interest rates most long-term mortgage loans are repaid within 7-10 years (Interviews with banks offering long-term mortgages and the World Bank).

An obstacle when screening customers is the difficulty of getting reliable information on the borrower in the underwriting process. The lack of national ID scheme makes it difficult for financial providers to verify the identity of a borrower. A national ID card system was launched in the spring of 2014 (Rwanyekiro (2015)). The financial institutions Act of 2004 aimed at establishing a credit reference bureau. Bank of Uganda officially launched the Credit Reference Bureau and Financial Card System in 2008 to resolve this problem of the difficulty in accessing reliable information in the underwriting process. However, primarily due to the lack of a national identification system, which is crucial to match data on the credit reference bureau with bank customers, it was difficult to establish such a bureau (Bank of Uganda (2011b)). The providers for the Credit Reference Bureau therefore developed a smart card system to identify bank customers using biometrics. Each borrower is required to register on the Financial Card System (FCS) and carry a financial card that is personal for her/him (Bank of Uganda (2011b)).

Land as collateral

Another prerequisite for obtaining a long-term mortgage loan is property with a formal title situated in a well planned urban area.

Faked land ownership

Generally banks consider the verification of land with a clean title as one of their biggest constraints. The high incidence of invalid titles taints every title to some degree. From the bank's perspective, the value of the collateral therefore has to be discounted to allow for the possibility of fraud, or for the extra expenses that might be needed by the bank or the borrower to perfect the title (Interviews with banks offering long-term mortgages). Land titles often are incorrect, either because of errors in the searching and registration process or because of fraud, and this is difficult for the Land Registry to detect and correct. The use of a manual system of registration makes it difficult to identify falsifications. Another problem is that the process of establishing the land title was irregular, the title remains valid according to law. It is therefore quite common that people process titles without the real owners knowing it. Also, some of the falsifications are done by the staff at the land ministry (Ministry of Lands and Development (2010)). Due to the common incidence of faked titles, land owners often put up signs on their land saying that the land is not for sale, an example on that is shown in the picture 5.6.

The Land Ministry is aware of these problems and have established a dedicated land line, in order to get information on immediate problems that need to be solved. The Table 5.8 shows different types of complaints received. It is shown that most complaints to the Land Ministry services by the public are related to fraud and false land titles (35 per cent) and slow unprofessional registration of titles (33 per cent), followed by incidents such as rude and corrupt staff at the ministry (10 per cent) (Ministry of Lands and Development (2010)). As shown in Table 5.9 the number of false titles has increased, from 8 in 2007 to 55 in 2010. However, these figures are the official ones published by the Land Ministry and it is likely that the real number of false titles is much higher. The Ministry has detected falsification in the following areas: signatures of registered proprietors and the land management institutions, letters of administration, court orders, release of mortgages, false affirmation, even by advocates, advocates witnessing signatures of deceased proprietors and false extensions.

Photo: Annika Nilsson

Figure 5.6: This land is not for sale.

Dual land ownership

A further concern for banks is dual ownership on mailo land (Personal interview with banks). The Land Act in 2004 gave increased protection to bona-fide tenants on mailo land.

Possession is often said to be ’nine-tenths of the law’. The owner of land, with a paper title to it, is considered to be in possession of it, even if he or she is not physically occupying it. However, if someone else takes physical occupancy of this land, with a clear intent to exclude the original owner, then, if the owner does not contest this within a certain period of time, he or she is considered to have voluntarily abandoned the claim to it (Foley (2007b)).

Bonafide tenants on mailo land are also recognized as legal owners with rights to sell and develop the land, but in consultation with the mailo landowner. These bonafide tenants are therefore considering themselves as the real owners of mailo land, which in effect cause a dual system of land ownership on the majority of the land in the Kampala region. The multiple and often unclear overlapping claims

Table 5.8: Different complaints reported by the public.

Item	**Complaints**
Reporting acts of fraud and falsification	35
Reports of delayed registration of transactions missing white pages, unavailability of land forms and unauthorized removal of caveats	33
Reporting rudness of Ministry staff and soliciting of an official fees	10
Reporting untraceable brokers and land agents	9
Reporting lack of assistance due to expired district land boards	8
Others (misleading procedures, succession issues, lack of Police intervention etc.)	5

Source: Ministry of Lands and Development (2010)

Table 5.9: False titles captured from the public.

Year	2007	2008	2009	2010
False titles	8	46	63	55

Source: Ministry of Lands and Development (2010)

often results in conflicts over the same piece of land (Kalema and Kayiira (2008)), (Giddings (2009)). Due to the unclear ownership, banks are at risk, even though the owner of mailo land has the legal right to mortgage the land. If the bank has to foreclose the loan and sell the land, there is the possibility that they have to evict and compensate people living on the land.

Boundary disputes are almost inevitable and land disputes are common in Uganda. Uganda's Commercial Court has a Land Division that deals specifically with land disputes (Personal interview lawyer). Cases decided by the land tribunals can be appealed to the regular Court of Appeals system and after that to the High Court. In Kampala this process, given the backlog in the court system, can take many years: It can take 2 years to get the case treated in the high court, 1 year to get it to the court of appeal, and 1 more year to the supreme court (Interview lawyer), (UN-habitat (2015)). According to the Ministry of Lands, Housing and Urban Development court orders registered under the Mailo land tenure system increased from 40 in 2007/08 to 88 in 2008/09 and declined to 57 in 2009/10 (Ministry of Lands and Development (2010)).

Customary land

Customary land has been introduced into the Mortgage Bill in an effort to reconcile it with the Land Act. However, banks don't know how they can get protection for this kind of land. It is difficult to determine what can be mortgaged and whose permissions are required. There is no central registry for customary land. Additionally, in the case that the borrower fails to pay back the loan and the bank takes over the collateral, it is difficult to sell the land and/or house in a community with customary tenure, as people that belong to the same clan do not want to buy a house that a member of the clan has lost. (Interviews with representatives of commercial banks offering long-term mortgages). According to the Ministry of Lands, groups of owners are disintegrating into smaller groups (Interview official at Ministry of Lands, Housing and Urban Development).

Valuation

There are no standardized information on land and house prices, but there is a professional valuing and surveying profession in Uganda. Surveyors have to be authorized by the Surveyors Registration Board. However, there are few valuers dealing with the top end of the market who operate in a very professional way, and this makes their services expensive. Surveying a land title costs around UGX 1 million ((USD 470), which is unaffordable for the majority (UN-habitat (2015)). Banks outsource the valuation of properties to private companies, but the value put on the same house can vary considerably between different valuers. Actors often seek information through informal sources. However, neighbours seldom want to give price information on sold houses and land (Mono Wabineno Oryema (2016)). In 2011, Bank of Uganda and Uganda Bureau of Statistics started to collect real estate data and compile real estate indices. The real estate index program produces quarterly data on changes in the volume of real estate and prices paid by buyers for a representative basket of properties. These indices will also serve as a source of price information for actors in the housing market Bank of Uganda (2011c).

Lack of serviced land and poor quality of housing

To get a long-term mortgage loan the land must have basic utility services. There is almost no supply of land, especially serviced land, for real estate development in Kampala. The provision of basic residential infrastructure in Kampala has been shaped greatly by the patterns of land tenure in the city. Large areas in the city of Kampala, mostly those under the mailo form of ownership, are very poorly serviced by paved roads, water and sanitation systems and electricity. Areas in the central part of the city and the higher-end residential neighbour-hoods, which have traditionally been leased to private interests by the Kampala City Council, are much better serviced by basic infrastructure. To get a house connected to all critical infrastructures is time consuming and can be very costly. The lack of a comprehensive land registration system as well as a lack of a zoning master plan for Kampala have contributed to the disorganized urbanisation patterns in Kampala. Usually infrastructure needs to pass a large number of separate Mailo land plots. In order to get connected there is a need to pay and get authorizations from each owner of land. The cost will therefore increase as each land owner normally tries to obtain the maximum value for providing the right of access to their land and may even refuse to provide this right (Foley (2007b)). The connection processes for all utilities can take up to a year. In addition, most of the connection cost are paid by the real-estate developers. This adds significantly to housing costs and often causes delays. According to banks, 30 per cent of the cost of a house corresponds to the cost of infrastructure (Interviews with banks offering mortgage loans). Mortgage lending is also constrained by the poor quality of the underlying assets. The growth of slums, combined with the hazardous and unplanned construction by individuals in the higher and middle income residential areas, have created a stock of houses that can neither be easily accessed nor marketed (Interviews with banks and Ministry of Lands, Housing and Urban Development).

Protection of spouses

The mortgage legislation requires spousal consent before a mortgage can be granted on a matrimonial home, but the lack of civil registry makes it difficult to assess the civil status of potential borrowers. There is also an unclear definition of a matrimonial home. A person can *e.g.* have more than one matrimonial home. The Land Act, in accordance with the 1995 Constitution, also stipulates (section 28) that any customary practices that deny women or children use of land are null and void (Lastarria-Cornhiel (2003)). However, people are often ignorant of the law and it is common that when a husband dies, his relatives take over his house and the widow and children are left on their own. Banks therefore have to spend a lot of time to make sure that they don't give out a mortgage on a property where the previous owner has died and his/her family is left uncompensated. The absence of matrimonial registry makes it also difficult to follow the law (Interview with representatives of banks offering mortgages).

5.9.2 Foreclosure

The preparations of the Mortgage Bill focused on the balance of rights between the borrower and the lender. The latter was felt to have too much power to foreclose a loan. According to banks, the process should be kept short, ideally no longer than 12 months from date of first notice to the completion of eviction proceedings. Due to an increasing number of defaults on mortgages, the central bank has prolonged the time to start a foreclosure procedure for foreclosure from one to three months, in order to give the customer a better chance to pay back the loan, but one of the interviewed banks considered this to be a further constraint for them (Interview with bank offering long-term mortgage loan).

Faced with the common incidence of properties that are sold on the market when bank customers fail to pay back their mortgages, a new model have emerged. Akright projects limited, one of the most established developers, has an agreement with his clients that in the case that the client has difficulties in paying back his or her mortgage to the bank, Akright then provides that person with a house with a lower value and takes the more expensive house. Both the owner of the house and Akright projects limited thereby avoids the risk that any of Akright houses would be sold by the bank at a lower price than they would sell it for, and the owner that can't pay back her/his loan can continue living in a house built by Akright (Interview with the director of Akright projects limited).

5.9.3 Inefficient land administration

The land registration system is unable to cope with the current demand. Registering a transfer of a property and a mortgage can take 6 months, depending on the client. Due to the often bureaucratic procedures most people that want to register their land have to contract a lawyer (Mono Wabineno Oryema (2016)), (Personal interview MAKKS adovates). Banks are at risk until the property is registered (Personal interviews with banks). Some of the reasons for the delays in the land registration process include lack of manpower, inefficient data management and that the required documents are not accessible to the general public (Interview IFC). The problems with the land registry make it costly to verify the status of the land, which in turn affects the ability to sell the land and the associated real estate. The World Bank's Doing Business Report 2012 ranks Uganda at number 127 of 183 countries in terms of the cost, the number of steps and the time to register a property. It requires 13 procedures that takes 48 days and cost 2.8 per cent of the property value. Every property transaction has to be independently valued by the Chief Valuer's Office for the purposes levying stamp duty. Lack of capacity in the office means that this process can be extremely slow. The Doing Business Report shows that this single step on average takes by far the most time (The World Bank (2012a)). According to the interview with an officer in the Land Ministry, the banks put a lot of pressure on them to speed up the registration process (Interview, Land Administration). This pressure may have contributed to the decrease in days of registration from 77 days during 2005-2010 to 48 days in 2011 (The World Bank (2012a)).

5.9.4 Lack of long-term funding

In order to increase the outreach of long-term mortgages there is a need for more funding. As described in the previous chapter, Chapter 4.3.1, short-term deposits dominates although the share of long-term deposits is increasing. Bank of Uganda regulations and supervisory practices have encouraged match-funded balance sheets. Given a system-wide paucity of term deposits, this encourages banks to only lend short-term. This has a negative impact on the availability of appropriately structured lending products for housing (The World Bank (2009)), (Interview Housing Finance Bank). The mortgage lenders have been seeking long-term funds from domestic institutions such as National Social Security Fund (NSSF) and some insurance companies, or through lines of credit from international agencies, for example International Finance Corporation (IFC), the European Investment Bank (EIB) and the Netherlands Development Finance Company (FMO). In 2010 NSSF and the Bank of Uganda Retirement Benefits Scheme were among the largest ten shareholders of Stanbic Bank, with a share of about 14 per cent of the mortgage portfolio. NSSF has an equity stake of 11 and 55 percent, respectively, in Development Finance Company of Uganda (DFCU) Bank, and Housing Finance Bank (HFB).

In 2007, the International Financial Corporation (IFC) partnered with three banks i Uganda(DFCU Limited, Orient Bank and Stanbic Bank). More banks were supposed to join later. The overall goals of the project were to improve the opportunities for Ugandans to own homes, and improve the regulatory environment for the provision of mortgage finance. NSSF was expected to lend the banks USD 40 million, with IFC guaranteeing USD 10 million of the amount. Nevertheless, the credit guarantee scheme was not successful! because the pricing was unattractive to the banking sector (Interview IFC). However, the generally poor qualty of the existing stock of mortgaged properties is a disincentive to the development of a secondary market (Interview IFC),(Boleat (2005)).

5.9.5 Summary

Only the small group of high income earners have access to long-term mortgage. A number of supply side factors can explain why mortgage loans are not more accessible, *e.g.* lack of competition and lack of long term funding. When screening borrowers, the banks' principal requirement is a regular formal salary that is sufficiently high. A problem when screening customers is, however, the lack of personal information about the clients, such as an official id-card. There is also a lack of personal identification on borrowers. The launched credit reference bureau is a step to solve this lack of information. Furthermore, the legislation requires spousal consent, which can create problems as there is no registry of marriages. The regulatory framework for land ownership creates a high degree of uncertainty and inefficiency. The largest problems are found on mailo and customary land. Another constraint is the lack of well serviced land.

Chapter 6

Centenary Bank Survey

In the following chapter, the so-called Centenary Bank Survey will be presented. It is the first of a total of four surveys, regarding the demand for housing loans. The Centenary Survey is assumed to target a group that is situated just below the upper part of the real estate pyramid, presented in the introduction of the thesis, see Figure 1.1.

The main purpose is to investigate whether respondents in the Centenary Survey could be part of a long-term mortgage market. The constraints on the demand for long-term loans will be investigated, in order to assess the importance of demand side constraints versus supply side constraints. The questions in the study are related to the structure of the theoretical framework, which described crucial aspects for expanding formal housing credits, see Chapter 3. The background of the Centenary Survey is presented in the methodology chapter, see Chapter 2.1.3. The chapter is divided into four parts. The first part analyzes the potential demand for long-term mortgages, the second part the actual demand for long-term mortgages, the third part analyzes the incremental building process and in the last part, I take a look at to what extent housing investment is a source of income.

6.1 Potential demand for long-term mortgage loans

The potential demand for long-term mortgage loans was investigated based on if respondents fulfilled bank requirements for obtaining a long-term mortgage loan, as described in Chapter 5.4, *i.e.* they were asked about personal characteristics and land ownership. Personal characteristics include many questions, related to their income level and I expected that respondents would be hesitant about answering questions about their formal income. Therefore I asked about their status of employment and education level, since these two parameters can be expected to be closely correlated to the income level.

Gender differences will be considered in some questions in this survey, I therefore start with presenting the gender distribution in the survey. The distribution between female and male respondents was 40 and 60 per cent respectively, see Table 6.1.

Photo: Annika Nilsson

Figure 6.1: Customers at the Centenary Bank.

Table 6.1: Gender [%].

Gender	Total sample
Female	40
Male	60
No. of responders	65
No. of non responders	2

6.1.1 Screening requirements

Capacity to pay back the loan and make down payments

Age?: When asked about their age, the majority, approximately 40 per cent, was between 26 to 35 years old. The groups younger than 26 years, between 36-45 years or between 46 to 55 years old were about the same size (around 20 per cent), see Table 6.2.

Working contract?: Three quarters of respondents answered that they had a regular job and were paid weekly or monthly, see Table 6.3. Women were to a higher degree than men regularly employed - approximately four fifths and three

Table 6.2: Age [%].

Age	Total sample
Below 26 years	18
26-35 years	37
36-45 years	24
46-55 years	18
56-65 years	3
Over 65 years	0
No. of responders	65
No. of non answers	2

fifths respectively. Less than one fifth was-self employed and the formal definition between being self-employed with your own company, and being just self-employed, is that you have a legal/formal registered company, with audited accounts, *i.e.* the company belongs to the formal economy in the first class.

The answers to the question about their employment status show that some respondents had given several answers, concerning the kind of employment they had. This suggests that they had several sources of income, which is common in developing countries like Uganda. When looking at those who had given several answers it can be seen that they were either self-employed with their own company or self-employed with a regular job. Since having a regular formal income is an important prerequisite for obtaining a long-term mortgage loan, those who answered that they had a regular job and were paid weekly or monthly will be studied further in the following questions. The answers from the total sample will, however, also be presented. The reason why I do not examine the self-employed participants further is because it is more difficult to estimate their formal income as well as whether the income is on a regular basis. Therefore it is complicated to get an understanding about whether they would qualify for a long-term mortgage loan or not.

Table 6.3: Employment [%], [multiple choice of answers].

	Total sample	Women	Men
I am self-employed with my own company	15	8	21
I am self-employed with audited account	0	0	0
I am self-employed	18	12	20
I have a regular job and I am paid weekly or monthly	72	85	64
I am a casual worker	3	4	3
Other	6	4	8
No. of responders	67	26	39
No. of non-responders	0	0	0

Education level?: The education system in Uganda has the structure of 7 years of primary education, 6 years of secondary education (divided into 4 years of lower secondary and 2 years of upper secondary school), and 3 to 5 years of post-secondary education. When asked about education level, the majority, four fifths, had a University degree, see Table 6.4. Among those who had a University degree, the major part, approximately two thirds, had a Bachelors degree, followed by those who had a Masters degree, corresponding to one fifth of respondents. A few answered that they had a S4 or S6 level, but no one answered that they had no education at all, neither that they had a Primary 7 level. Considering education level, there were no gender differences. The answers also show that having a University degree and a regular employment are correlated.

Table 6.4: Education level [%].

	Total sample	Regular job	Women	Men
No formal education	0	0	0	0
Primary 7	0	0	0	0
S4	4	2	0	8
S6	12	12	15	8
Bachelors Degree	66	69	69	64
Masters Degree	16	15	12	20
Higher Degree	2	2	4	0
No. of responders	67	48	26	39
No. of non-responders	0	0	0	0

Land as potential collateral

The survey included several questions related to land ownership, in order to investigate if those who owned land at the time of the survey, had land that would be valid as security for a long-term mortgage loan.

Land ownership: When asked about whether they owned land at the time of the survey, the majority (approximately three fifths) answered yes, see Table 6.5. Regularly employed respondents owned land to approximately the same extent as the whole group. Male respondents owned land to a higher degree than female respondents (two thirds of men and half of female respondents).

Where is your land located?: I asked in what area the land they owned was located. This was asked because only land with a formal title, situated in planned urban areas, is accepted as collateral for a long-term mortgage loan. Everybody answered that the land they owned was situated in an urban area. Most answered that the land was located in Kampala and the Wakiso district of Kampala, while a few answered that it was in Jinja, and in Mukono and Masaka that both are districts in Kampala. However, I never asked whether the land was in a planned area.

Table 6.5: Do you own land? [%].

	Total sample	Regular job	Women	Men
YES	62	54	54	68
NO	38	46	46	32
No. of responders	65	46	26	37
No. of non-responders	2	2	0	2

Do you have a land title on your land?: Those owning land were further asked whether they had a land title on their land. Half of them answered that they had a land title, registered in Land Ministry, and one fourth of the total sample answered that their title was in process to get registered, see Table 6.6. Furthermore, one fifth answered that they had Kibanja land. Kibanja land is occupied land as described in chapter 5. Kibanja land was/is accepted as collateral at the Centenary Bank, although the interest charged was/is about ten per cent higher, than of a formal registered land title. Kibanja land is not accepted as collateral in banks offering long-term mortgage loans, as described in chapter 5.4.

Table 6.6: If you own land, what is the state of ownership of your land? [%].

	Land owners Total sample	Land owners Regular job	Land owners Women	Land owners Men
Has a certificate on title	48	46	36	52
Title is on process	25	23	28	24
It is Kibanja land	22	27	36	16
I have no title	0	0	0	0
I do not know	5	4	0	8
No. of responders	40	25	14	25
No. of non-responders	0	0	0	0

What land tenure does your land fall under?: Those owning land were asked under what land tenure their land fell. A large majority had mailo tenure (two thirds had private mailo, and one fifth official mailo), and only a few answered that they had freehold land, see Table 6.7. All these tenures are accepted as collateral in banks offering long-term mortgage loans.

Would you like to have a formal land title on your land?: The group of land owners who did not have a land title, corresponding to one fourth of the land owners, were further asked if they would like to process their title. Almost all answered affirmatively, that they would like to formalize their land, see Table 6.8. When cross-checking the answers it was found that some of those who previously answered that their title was in process to get registered, had answered this question affirmatively.

Table 6.7: In case you own land, on what land tenure does your land fall? [%].

	Land owners Total sample	Land owners Regular job
Private mailo	66	67
"Bulange" (offical mailo)	17	19
Freehold	3	0
Leasehold	0	0
I don't know	14	14
No. of responders	36	21
No. or non-responders	4	4

Table 6.8: Would you like to process your title? [%].

	Land owners without title
YES	92
NO	8
Number. of responders	25
No. of non-responders	0

Reasons for not formalizing the land: Furthermore, I asked why they hadn't formalized their land, see Table 6.9. The most common answers were that it was too complicated and also "other reason", approximately 40 per cent each of those answers. Some respondents that answered "other reason" further explained that they did not own land. When considering land ownership, among those who answered that they did not own land, it became evident that they had Kibanja land ownership. The third most cited reason for not formalizing their land, was that the process was too expensive which approximately one third of respondents answered.

Are you going to use your land as security for the loan: Those who answered that they owned land, were asked whether they were going to use the land as security for the loan, which they were applying for at the time of the survey. As shown in Table 6.10 the large majority, approximately four fifths, answered that they were going to use the land as security. Regarding the people who answered that they were going to use the land as security, the majority had a land title or a land title in process for registering, with the result of approximately 60 and 25 per cent, respectively. One fifth of them owned Kibanja land.

In case you will use the loan to buy land will you use that land as security for a loan later?: Those who answered that they were applying for a loan to buy land, see Table 6.21, were asked if they were going to use that land as security for a loan in the future. Approximately two thirds answered yes, while one tenth answered no, and one fifth answered that they did not know, see Table 6.11. It might have been

Table 6.9: What is your reason for not having a registered land title in land ministry? [%], [multiple choice of answers].

	All answering the question	Those not having a title on their land
The process is too complicated	39	50
The process is too expensive	33	50
Not afraid of being evicted	6	0
No advantages to have a title	0	0
I did not need a title before	6	8
I fear corruption in land ministry	0	0
I don't know	0	0
Other reason	39	25
No. or responders	18	12
No. of non-responders	0	9

Table 6.10: Do you intend to use your land as security for this loan? [%].

	Land owners Total sample	Land owners Regular job
YES	82	78
NO	18	22
No. of responders	38	23
No. of non-responders	2	2

more appropriate to ask whether they were going to use the land that they were buying as security for the loan they were applying for at the time of the survey, although it is possible that the answers would have been similar.

Table 6.11: Are you going to use the land as security later? [%].

	Land purchasers Total sample	Land purchasers Regular job
YES	62	67
NO	14	15
I do not know	24	18
No. of responders	42	33
No. of non-responders	0	0

Why do you want to use the land as security?: I further asked why they wanted to use their land as security for a loan later, see Table 6.12. Most, three quarters, answered that they wanted a larger loan, one third answered "other reason", while a few, around one tenth, answered that they hoped to get a longer term loan and/or that they hoped to get a lower interest rate.

Table 6.12: Why do you want to use the land as security later? [%], [multiple choice of answers].

	Land purchasers
I don't know	0
Hope to get a longer term loan	14
Hope to get a lower interest rate	7
Hope to get a larger loan	76
Other reason	31
No. of responders	29
No. of non-responders	0

6.2 Actual demand for long-term mortgage loans

How did you acquire your house and land?: To get an understanding of the demand for long-term mortgage loans, respondents were first asked what funding they had used for constructing their houses and acquiring land, before they applied for a loan at Centenary Bank at the time of the survey, see Table 6.13. Most respondents, around four fifths, answered that, apart from taking a loan at Centenary Bank, they used savings to finance their land and house. The use of loans was rather low, and only around one tenth of respondents had taken a loan either from microfinance organisation, a moneylender or a bank. The major difference between bank loans and micro-finance loans is that the former is larger and on longer term. The use of loans was slightly higher for acquiring a house, than for acquiring land, which may be explained by the fact that that some, one fifth, answered that they did not own any land yet. When cross checking answers I found that those who answered that they did not own land, explained that they were going to buy land for the loan that they were applying for, at the time of the survey, as will be explained in the Section 6.3 on incremental building.

The higher number of respondents on the question about how they had financed their land may depend on the fact that some respondents had not started building their house yet, or maybe they currently did not have any plans to construct a house.

In case you used a bank loan to finance your house or land did you get a long-term mortgage loan?: Those who had already taken a bank loan were asked whether they had taken a long-term mortgage loan. Very few answered yes, and the large majority answered negatively, see Table 6.14. However, the number of respondents was much higher than it should have been, according to the earlier answers about if they had taken a bank loan.

Table 6.13: Previous funding used for acquiring house and land [%], [multiple choice of answers].

	House Total Sample	Land Total Sample	House Regular job	Land Regular job
Inheritated it	9	4	7	4
Got it as a gift from family	7	4	7	2
Savings	84	77	83	76
Loans from friends/family members	0	0	0	0
Loan from friends/family living abroad	0	0	0	0
Loan from microfinance organisation	11	7	14	7
Loan from community group	7	0	3	0
Loan from moneylenders	9	5	10	4
Loan from a bank	14	11	17	13
None of the above (I don't own a house/land)	0	18	0	20
No. of responders	44	57	29	45
No. of non-responders	23	10	19	3

Table 6.14: If you already had a loan to finance your house or/and land did you get a long term mortgage loan? [%].

	Total sample
YES	4
NO	96
Number. of respondents	47
No. of non-responders	0

If this is the first time you apply for this kind of loan, why you did you not apply for a loan two years ago?: Half of respondents had taken a loan before, see 6.19, as will be explained in the sector on incremental building. Those who had not taken a loan before were asked why they did not apply two years before, see Table 6.15. The most common answer was that they had no land to use as security, or that they were scared of banks (one third of respondents each), followed by those who answered that they did not have enough savings (one fifth), and finally, one group answered that their income was too low (one tenth of respondents).

Have you applied or are you within three years going to apply for a long-term mortgage loan: To investigate the actual demand for bank loans, respondents were asked if they either had applied, or within the next three years were going to apply, for a larger long-term mortgage loan, in any of the banks which offer mortgage

Table 6.15: Why did you not apply for this kind of loan two years ago? [%], [multiple choice of answers].

	Total sample
I considered the interest rate to be too high	21
I had no land to use as security	36
I did not have enough income to qualify for a loan	12
I did not know how to apply for a loan	12
I did not have enough savings	18
I borrowed what I needed from other sources	6
I had no interest in building a house or buying land	6
I was scared of banks	36
Other reason	6
No. of responders	33
No. of non-responders	0

loans. Few, less than one tenth, answered that they would apply for a mortgage loan, approximately half of respondents answered that they would not apply for a mortgage loan and two fifths answered that they did not know. The pattern of the answers was similar for the whole sample, as well as for those having regular employment, and also for women and men, see Table 6.16.

Table 6.16: Have you applied before or will you within three years apply for a mortgage loan? [%].

	Total sample	Regular job	Women Total sample	Men Total sample
YES	5	7	8	3
NO	54	58	55	54
I don't know	41	35	37	43
No. of responders	63	45	24	37
No. of non-responders	4	3	2	2

Reasons for exclusion from the long-term mortgage market

Those who answered that they had not applied for a long-term mortgage loan, or that they did not plan to do so within the next three years, were asked to explain the reasons why, see Table Table:Selfexclusion. As shown in the Table, all respondents who answered the question are included in the first column, followed by those who should have answered, *i.e.* those answering NO on the previous question. The reason why I included all respondents is that there were many more participants who answered the question, than those who corresponded to the intended group.

This is due to the fact that some of the people who answered that they did not know, whether they were going to apply for a long-term mortgage loan in the previous question, answered this question anyway. However, as shown in the Table Table:Selfexclusion, the pattern of answers is similar for all groups, namely:

Too complicated: The most cited answer, approximately half of respondents, answered that the reason why they had not applied for a mortgage and did not plan to apply, was because it was too complicated, see Table 6.17.

Too low income. The second most common answer was that their income was too low for an application for a mortgage loan. Approximately one third of respondents, in the total sample, as well as those who had a regular job, gave this answer, see Table 6.17.

The education level was quite diverse among those who answered that they had a too low income. Most had a S6 or Bachelors degree and very few S4 and Masters degree.

Afraid of losing title if fail to pay back in time: The third most cited reason, approximately one fifth of respondents, was that they did not want to apply for a long-term mortgage, since they feared they would lose their land title if they did not fulfilled the repayments on time, see Table 6.17.

Other reason. This answer was given by one fifth of respondents, and they explained it by the following reasons; they did not want a long-term loan, due to insecure labor market, they did not want to be indebted for a long time or they were scared of banks, see Table 6.17. Some of these short explanations were thus similar to the answers discussed above, *e.g.* they were afraid of losing the title in case they could not pay back the loan.

Lack of collateral. Lack of land to use as security was indicated by only 5 per cent of respondents as a reason why they did not apply for a mortgage loan, see Table 6.17.

Summary of those approved versus not approved: Among those participating in this survey approximately four fifths had their loan application approved by Centenary Bank, see Table 6.18. Women were somewhat more likely to get their loan application granted than men.

There were many similarities between those who got their loan approved and those who did not. The group who did not get their loan approved was between 26 and 55 years old. Two thirds had a Bachelors degree, four fifths had a regular job (paid weekly or monthly) and two thirds were going to buy land at the time of the survey. There were also differences between those approved and those not. Those who were not approved, had normally planned to take less bank loans than the others, and had never taken loans from a formal financial institution. They had borrowed from moneylenders at a higher extent compared to those who had their loan application approved. Also, the demand for a long-term mortgage loan was lower among those who were not approved, and the reason why they didn't want to take such a loan was also to a large extent that they considered it too complicated to apply for.

Table 6.17: Why haven't you applied neither want to apply for a mortgage loan within the next three years? [%], [multiple choice of answers].

	All answering the Q Total sample	NO on previous Q Total sample	NO on previous Q Regular job
I lack acceptable land as security	5	3	4
My income is too low	28	27	36
Afraid of loosing title; if I can't pay back	19	24	24
Afraid of loosing title; corruption in Land Ministry	5	0	0
Too complicated	54	61	60
Bad credit history	0	0	0
Other reason	19	21	16
No. of responders	43	33	25
No. or non-responders	0	1	1

Another major difference, between those who got their loan application approved and those that were not, was that among those who were not approved, one third owned land, compared to more than two thirds among those who were approved. The group that not was approved and owned land under mailo tenure wanted to use their land as collateral for a short-term loan at Centenary, but they did not want to use it as security for a long-term loan.

Table 6.18: Approved not approved loan applications at Centenary Bank [%].

	Total sample
Approved	82
Not approved	18
Number. of responders	65
No. of non-responders	2

6.3 Incremental building

Frequency of applying for short-term loans: To get a better understanding of the demand for short-term loans I asked how many previous applications respondents had made for the same kind of loan which they were applying for at the time of the survey, *i.e.* a home improvement loan, salary loan or any other loan, see Table 6.19. Half of respondents said that it was their first application, while one fifth had applied 1 or 2-4 times before, and a few, less than 1/20, had applied for such a loan more than 4 times before. Women were first-time lenders to a higher degree than men,with three fifths and two fifths respectively.

Table 6.19: How many times have you applied for this kind of loan? [%].

	Total sample	Regular job	Women	Men
0, this was my first application	50	53	62	39
1	20	19	15	24
2-4	23	21	19	26
More than 4	7	7	4	11
No. of responders	66	47	26	38
No. of non-responders	1	1	0	1

If you had a loan before, what was the loan used for?: Those who had taken a loan before, were asked what the previous loan had been used for. Most respondents, more than half of them, answered that they had bought land, see Table 6.20. Their answers also suggest that they were to a larger extent buying land from a property agent and not from a private person. Furthermore, one third answered *other reason*, further explaining that they were going to buy a house.

Table 6.20: If you had a loan before, please indicate what you used the loan for? [%], [multiple choice of answers].

	Total sample	Regular job	Women	Men
Buy land from a property agent	35	40	30	38
Buy land but not from a property agent	26	10	0	38
Construct an unfinished house	3	5	10	0
Complete an existing house	23	25	20	24
Add rooms to an existing house	16	10	20	14
Renovate	13	15	30	5
Install electricity	3	5	10	0
Other investment	32	35	30	23
No. of responders	31	20	10	21
No. of non-responders	2	2	0	2

What will the loan you are applying for be used for: Respondents were also asked about what they were going to do with the loan that they were applying for at the time of the survey. Most respondents, around three quarters, answered that the main reason for taking a loan at Centenary Bank was to buy land, see Table 6.21. Women were to a larger extent than men going to use the loan for buying land, four fifths and half of the answers respectively. Regularly employed and women bought their land from a property agent, to the same extent as from a private person. The second most common answer to this question, was that the loan was going to be used to complete their house, corresponding to one fifth of the answers. The third most cited answer option (around one third of respondents) was that the loan was used for *other investment*. "Other investment" was further explained as plans to construct a house, which thus implies that their answer corresponded to some of the other answer options, for example construction of an unfurnished house or the termination of an existing house.

Table 6.21: Purpose of taking loans at Centenary Bank? [%], [multiple choice of answers].

	Total sample	Regular job	Women	Men
Buy land from a property agent (*e.g.* Jomayi)	26	35	40	18
Buy land but not from a property agent	40	39	44	37
Construct an unfurnished house (a shell)	12	11	16	11
Complete an existing house	17	17	16	18
Add rooms to an existing house	5	2	0	8
Renovate	5	0	4	3
Install electricity and water	5	4	0	8
Other investment	14	17	8	18
No. of responders	65	46	25	38
No. of non-responders	2	2	1	1

How much of the cost of the house would you like to be covered by short-term loans?: I asked how big a part of the construction cost of the house they wanted to be financed by short-term loans. The most common answer (approximately two fifths) was that they would like to take loan/s that covered 30-50 per cent of the cost, followed by those (almost two fifths) answering that they would like to cover the cost with loans equivalent to 10-30 per cent, and a few (1/20) wanted to finance 70-100 per cent of the total cost of their house with loans, see Table 6.22. There were more respondents who answered this question than the number that previously answered that they took a loan for any kind of investment in their house, which may be explained by the fact that those who answered that they were not taking a loan for investment in a house, planned to take a second loan to construct a house later.

How many years will it take to finish the house?: Respondents were also asked about how many years they estimated it would take to finish their house. Approximately half of them answered that it would take 1-3 years, about one third answered that it would take less than one year and about one fifth answered that they did

Table 6.22: How much of the total cost of the house would you like to be covered by short-term loans? [%].

	Total sample	Regular emplyed	Women	Men
Less than 10 per cent	0	0	0	0
10-30 per cent	37	29	29	39
30-50 per cent	42	43	47	39
50-70 per cent	9	11	12	9
70-100 per cent	7	11	6	9
I don't know	5	6	6	4
No. of responders	41	28	17	23
No. of non-responders	0	0	0	0

not know, see Table 6.23. However, one has to consider that it might be difficult to estimate the time of finishing a house. Also here there were more respondents than those who previously answered that they took a loan for any kind of investment in their house, and this may be explained by plans for future loans as mentioned above.

Table 6.23: How many years will it take to finish the house? [%].

	Total sample	Regular job
Less than 1 year	32	27
1-3 years	47	46
5 years	3	4
More than 5 years	0	0
I don't know	18	23
No. of responders	38	26
No. of non-responders	0	0

6.4 Housing as a source of income

In order to analyse whether housing can be a source of income, a number of questions were asked.

Do you own more than one house?: I first asked whether respondents were owning more than one house at the time of the survey, see Table 6.24. As shown in the Table most of respondents, three quarters, did not own more than one house.

Table 6.24: Do you own more than one house? [%].

	Total sample
YES	24
NO	76
No. of responders	62
No. of non-responders	5

Number of houses owned?: Respondents were then asked about how many houses they owned. One third of respondents answered they owned one house or 3-5 houses, and two fifths owned two houses, while a few answered that they owned more than 5 houses, see Table 6.25.

Table 6.25: How many houses do you own? [%].

	Total
1	26
2	42
3-5	26
More than 5	5
No. of responders	19
No. of non-responders	0

Do you rent out house/s – room/s?: Those who already owned a house, one fifth of respondents, were asked whether they rented out a house/s and/or room/s. As shown in Table 6.26 nearly one fifth answered that they were letting out a house and almost one fifth answered that they were letting out rooms.

Table 6.26: Are you letting out a house/s – room/s? [%].

	Are you letting out house/s?	Are you letting out rooms?
YES	17	15
NO	83	85
No. of responders	64	65
No. of non-responders	3	2

A higher rent if improved conditions on the house/s – room/s you are letting out?: Those who answered that they were renting out a house/s and/or a room/s, were also asked whether they thought that they could charge a higher rent if they improved the conditions of the house/s and room/s, see Table 6.27. Four fifths answered that they thought they could charge a higher rent if they improved the conditions of the house/s they were letting out, while one fifth answered that they did not know. All of those letting out a room/s answered that they could charge a higher rent if they improved the conditions of the rooms they were letting out.

Table 6.27: A higher rent if improved conditions of the rooms/house you are letting out? [%].

	Those letting out a house	Those letting out rooms
Yes	83	100
No	0	0
I don't know	17	0
No. of responders	11	9
No. of non-responders	0	1

6.5 Summary

The majority of respondents were 26-45 years old, had a University degree and a regularly paid job, which suggest that they belonged to the middle class. About half of respondents owned land before applying for a loan, at the time of my survey. Most of them had titled land with a land tenure, which was accepted as collateral for long-term mortgage loan. Women were to a lower extent than men already owning land. On the other hand, men had taken more loans before. Those who did not own land without a formal land title, had Kibanja land which is not accepted as collateral for a long-term mortgage loan. Among those who did not have a formal land title, there was a clear willingness to formalise their land. The reasons why they had not formalized the land were mainly that it was too complicated and expensive.

The actual demand for long-term mortgage loans was further examined. But first they were asked about how they had acquired their house and land. They primarily used savings to acquire land and housing. A few had taken micro-finance loans, loans from banks, or had inherited their land but no one had borrowed money from family or friends. Hardly anybody had taken a long-term mortgage loan or planned to do so within the next three years. There were several reasons for this: it was too complicated to apply, their income was too low and they were afraid of losing the land title, if they couldn't pay back the loan.

They preferred to take several short-term loans, which covered approximately 10-50 per cent of the total cost of their land- and house investment. Most of respondents estimated it would take up to three years to construct their house. The most common purpose of taking a short-term loan, was to buy land. Among regularly employed applicants, the purpose of taking a loan was threefold, first to buy land, secondly to construct a shell and thirdly to finish the house. Almost one fifth of those who owned several houses, said that they were letting out a house/s and/or a room/s and almost all of them said they would be able to charge a higher rent if they improved the standard on that house/s and room/s.

Chapter 7

Jomayi Survey

The Jomayi Survey is assumed to belong to the top part of the real estate pyramid presented in the introduction, see Figure 1.1, i.e. where there is a potential market for long-term mortgages. The theoretical chapter highlighted crucial aspects of housing finance loan delivering, see Chapter 3, and in this chapter, I will be examine how the respondents in the the Jomayi Survey deal with these issues. One aim is to assess the potential of respondents to become a creditor of a long-term mortgage loan. In the methodological chapter, a detailed background to the Jomayi Survey is presented, see Chapter 2.1.3. The first part of the chapter covers the potential demand for long-term mortgages and the second part the actual demand for long-term mortgages and also the demand for other types of bank loans. The third part describes the incremental building process and the last part investigates if housing is a source of income.

7.1 Potential demand for long-term mortgage loan

The potential demand for long-term mortgages is first investigated by looking at the answers to the questions related to whether respondents meet banks' screening requirements for such loans or not. The requirements are described in Chapter 5.4. Like in the Centenary Bank Survey, indirect questions were asked to assess respondents' level of income. In contrast to the Centenary Bank Survey, the direct question about the respondent's salary was also included in the questionnaire.

7.1.1 Screening requirements

Capacity to pay back the loan and make down payments

Age: The majority of the total sample was between 26 and 45 years old.

Education level: To estimate their income they were first asked about their highest education level, see Table 7.1. The education system in Uganda has a structure of 7 years of primary education, 6 years of secondary education (divided into 4 years of lower secondary and 2 years of upper secondary school), and 3 to

Photo: Annika Nilsson

Figure 7.1: View over the Namugongo Kira Estate.

5 years of post-secondary education. Most of respondents (three quarters) had a University degree. The majority in this group had a Bachelor's degree, and a smaller group had a Master's degree, and a few had a higher education level than Master's degree level. One tenth of respondents had a s4 level and few had a Primary 7 level or no formal education.

What kind of work contract do you have?: Asked about their employment status, most of respondents (two thirds) answered they were regularly employed, followed by

Photo: Annika Nilsson

Figure 7.2: Incremental construction in the Jomayi Estate.

the group of self-employed participants(one third) and those who were self-employed with their own company (one tenth), see Table 7.2. As mentioned in the previous chapter, the difference between being just self-employed and self employed with your own company is that the latter means that you have audited accounts. When looking at the relation between employment status and education level, it was found that those with a Master's degree had the highest rate of regular employment.

Employer among regularly employed: Those who were regular employees were also asked about who their employer was, as it was assumed that there would be salary differences between having a private, public or an international employer. Approximately one third of respondents was either employed by a private company or the government, followed by about one fifth who worked for an international company and one tenth that was employed by an international organisation, see Table 7.3.

Salary among regularly employed: Those who had a regular employment were also asked about their monthly salary. One third of respondents had a monthly salary over UGX 2 000 000, and approximately one fifth of respondents earned either UGX 500 000 – 1 000 000, 1 000 000 or 1 500 000 – 2 000 000, and one tenth did not want to answer, see Table 7.4.

As also shown in the Table 7.4 those who worked for an international organ-

Table 7.1: Education level? [%].

	Total sample	Regular job
No formal education	2	0
Primary 7	2	0
S4	13	7
S6	6	8
Bachelor's degree	44	40
Master's degree	30	40
Higher degree	3	5
Nr. of responders	63	40
Number of non respondents	0	0

Table 7.2: Employment [%], [multiple choice of answers].

	Total sample	Bachelor degree	Masters degree	S6	S4
Self employed with own company	8	87	10	0	0
I am self-employed	27	32	5	25	100
I have a regular job and I am paid weekly or monthly	64	57	85	75	0
I am a casual worker	2	4	0	0	0
Other	2	4	0	0	0
Nr. of responders	63	28	19	4	1
Nr. of non-responders	0	0	0	0	0

isation had the highest income, followed by those employed by an international company, Ugandan company or the Government.

When looking at characteristics among those earning more than 2 million UGX monthly, most were in the age of 26-35 (three quarters), 50 percent had a Master's degree, and one third a Bachelor's degree and almost one tenth had a higher degree. Three quarters had a regular job and the majority was working in a private international company (one third) or international organisation (one third). Approximately two fifths of this high income group had taken a loan from a bank for buying land and constructing their house. Among those who had taken a loan, approximately nine tenths took short-term loans and approximately one tenth took either a microfinance loan, a loan from a moneylender, or a mortgage loan.

Table 7.3: Employer among regularly employed [%].

	Regular job
Private Ugandan Company	32
International Company	20
Government, Local government	30
International organisation	13
Other, please specify	5
Nr. of responders	40
Nr. of non-responders	0

Table 7.4: Monthly salary - regular job [%].

	Regular job	Ugandan Company	International Company	Government	International Organisation
Less than 500 000 UGX	5	0	0	18	0
500 000 - 1 000 000 UGX	18	12	14	28	25
1000 000 - 1 500 000 UGX	13	25	14	18	0
1 500 000 - 2 000 000 UGX	16	25	15	18	0
More than 2 000 000 UGX	32	13	43	9	75
Don't want to answer	16	25	14	9	0
Nr. of responders	38	8	7	11	4
Nr. of non-responders	2	6	1	1	1

Land as potential collateral

Do you have a land title on your land?: Potential demand for mortgages was further investigated by asking whether respondents had a title on their land, *i.e.* formal land ownership. Practically all answered affirmatively, see Table 7.5. The reason why a few did not have a land title may be due to the fact that there were residential houses in this area before Jomayi Property Consultants bought the land.

Land tenure: When asked about land tenure, almost all, nine tenths, answered that they had private mailo, followed by those, approximately one tenth, that had freehold and a few had official mailo, see Table 7.6.

Table 7.5: Land title [%].

	Total sample	Regular job
Has a certificate of title	98	100
Title is on process	2	0
It is Kibanja land	0	0
I do not know	0	0
Nr. of responders	62	39
Nr. of non-responders	1	1

Table 7.6: Land tenure [%].

	Total sample	Regular job
Private mailo	89	90
Bulange (official mailo)	2	3
Freehold	6	7
Leasehold (former public land)	0	0
I do not know	3	0
Answered question	62	39
Number of non respondents	1	1

7.2 Actual demand for bank loans

The actual demand for bank loans, especially long-term mortgage loans, was first investigated by asking what financial sources they had used for buying their land and constructing their house.

How did you acquire your house and land?: When asked about how they had acquired their land, approximately half of respondents answered that they had taken a bank loan, all said that they used savings and a few had taken a loan from family/friends living abroad, see Table 7.7.

To finance the house, all respondents again answered they used savings, two fifths had taken a loan from a bank, a few had used loans from a micro-finance organisation, family members, and/or other sources, see Table 7.7. The response option *other* was specified as a loan from their employer, donation from friends, bonus from work and sale of assets.

What type of bank loan was used?: Those who had taken a bank loan, approximately half of respondents, were further asked about what type of bank loan they had taken. As can be seen in the Table 7.8, approximately three quarters of respondents took a short-term loan while one third of respondents took a mortgage loan.

Table 7.7: Finance used for acquiring land and house % [multiple choice of answers].

	Land Total sample	Land Regular Job	House Total sample	House Regular Job
Inheritance	0	0	0	0
Savings	97	95	100	100
Bank loan	47	67	43	66
Loan from friend/family	0	0	3	3
Loan from friend/family living abroad	3	5	2	3
Microfinance loan	0	0	3	3
Community group loan	0	0	0	0
Moneylender	0	0	0	0
Non of the above (I don't own land/house)	0	8	0	0
Other, please specify	6	10	3	3
Nr. of responders	62	39	60	38
Nr. of non-responders	1	1	3	2

Table 7.8: In case you took a bank loan, what kind of loan/s did you take? [%], [multiple choice of answers].

	Total sample	Regular job
Long-term mortgage loan (*e.g.* HFB, DFCU, Standard Chartered, Stanbic)	27	27
Short-term loan, (*e.g.* Centenary Bank)	73	77
Microfinance loan	6	3
Loan from a community group	3	3
Moneylender	3	3
Friends-relatives	0	0
I did not take any loan	0	0
Nr. of responders	33	29
Nr. of non-responders	0	0

7.2.1 Actual demand for long-term mortgages

Reasons for not taking a long-term mortgage loan

Those who had not had taken a long-term mortgage loan were asked about the reason/s for that. As shown in the Table 7.9, the most common reasons for not taking a mortgage loans were:

Afraid of losing title if I fail to pay back in time: Approximately one third answered that they were afraid of loosing the land title, in case they could not pay back the loan repayments on time.

Other reason: One fourth answered other reason, which they explained with the following factors: banks were not so flexible - they asked for fifty percent of savings, they tried but the loan application was rejected, expensive insurance and they were afraid of inflation. All these answers reflect the general perception of mortgage loans quite well.

My income is too low, too complicated to apply for and I did not want a long-term loan: One fifth of respondents gave any of the following answers: i) my income is too low, ii) it is too complicated, and iii) I didn't want a long-term loan.

Table 7.9: Reasons for not taking a long-term mortgage loan? [%], [multiple choice of answers].

	Total sample	Regular job
I lacked acceptable land as security	10	11
My income is too low	20	12
I am afraid of loosing title if I can't pay back	35	39
Afraid of loosing title, because of corruption in Land Ministry	5	6
Too complicated	20	11
I didn't want a long-term loan	20	22
I don't want a big loan	5	6
Interest rates are too high	20	22
I have a bad credit history	5	6
Other reason, please specify	25	28
Nr. of responders	20	18
Number of non respondnets	0	0

7.2.2 Actual demand for short-term loan/s

As shown above, approximately half of respondents had taken some type of bank loan. One third of them had taken a long-term mortgage, which means that the rest had taken some type of short-term loan. The demand for short-term loans will be investigated below.

From which bank did you get the loan/s?: I asked in which bank they took their loans, since it gives some indication what kind of loan that had been used, as well as an indication of their income level. As shown in Table 7.10, the majority had taken loans from the large banks (Barclays, HFB, Standard Chartered followed by Stanbic and Centenary Bank). All these banks are also offering so-called salary loans and long-term mortgage loans, except Centenary Bank that is offering short-term mortgage loans.

Use of land as security: Short-term loans can be secured on the borrower's income and/or on their land and therefore those who had taken a loan were asked whether they had used their land as security or not. As shown in Table 7.11 approx-

Table 7.10: From which bank did you get the loan? [number of answers].

Bank	Total sample
Stanbic	3
Standard Chartered	4
Centenary Bank	3
Barclays	8
HFB	7
Post Bank	1
Pride Microfinance	1
Global Trust Bank	1
Microfinance Bank	1
Nr. of responders	29
Number of non-responders	4

imately half of respondents answered that they used their land as security. Among those who had used their land as security, taking a long-term mortgage loan was as common as taking a short term-loan. In other words, among those who had taken a short-term loan almost one third had used the land as security.

Table 7.11: Did you use land as security for your loan-s [%], [multiple choice of answers].

	Total sample	Regular job
YES	51	45
NO	46	52
On some loan	3	3
Nr. of responders	33	29
Nr. of non responders	0	0

Reasons for using land as collateral: Those who had taken a bank loan with land as collateral were asked about the reasons why. As shown in Table 7.12 the main reasons for using land as collateral were: i) to get a larger loan (approximately half of respondents), ii) to get a lower interest rate (one third of respondents), iii) to get a loan during a longer time period (one third of respondents), and iv) other reason (one fifth), where they *e.g.* explained that land was the only asset they had which could be used as security for the loan that they had taken.

Reasons for not using land as collateral: Those who had taken a loan without using land as security were asked about why they did not use the land as security. As shown in Table 7.13 the main reasons for not using land title as collateral were; i) fear of losing the land title, in case they could not pay loan instalments in time (two fifths), ii) other reason (two fifths), and iii) it was too expensive to have a long-term

Table 7.12: Reasons for using land as collateral [%], [multiple choice of answers].

	Total sample	Regular job
Wanted a longer term loan	22	26
Wanted a larger loan	56	43
Wanted a lower interest rate	37	29
I do not know	0	0
Other reason, please specify	21	29
Nr. of responders	18	14
Number of non-responders	1	0

loan or the mortgage fee was too expensive (one tenth). Those who answered *other reason* explained that they could use their salary as security for the loan.

Table 7.13: Reasons for not using land as collateral [%].

	Those that had taken (an) unsecured loan(s)
Too complicated	14
The land is not accepted by the bank as collateral	7
I am afraid of loosing the title if I can't pay back in time	36
Afraid of corruption in Land Ministry	7
Mortgage registration fee is too expensive	14
I have not thought of that possibility	0
Other reason, please specify below	43
Nr. of responders	14
Nr. of non responders	2

Experience with having a loan: Those who had bank loans were asked about their experiences with that. The majority (two fifths) were positive since it helped them to buy land and build a house, followed by those who thought it was very stressful (one third), and those that answered “other reason” (one fourth), *e.g.* that they did not have to pay a rent.

Reasons for not having any bank loan at all. Those who not had taken any bank loan were asked to explain why, see Table 7.14. Most of them answered that they never considered taking a bank loan (two fifths of respondents), followed by those who answered that they were afraid of losing their land title, if they could not pay the instalments on the loan on time (one third of respondents), that the interest rate was too high (one third of respondents) and that they were scared of banks or that there were other reasons (one fifth of respondents).

Table 7.14: Reasons for not taking any bank loan [%], [multiple choice of answers].

	Those that had not taken any loan
I considered the interest rate to be too high	36
I am afraid of loosing land title if I can't pay back in time	29
I had no land to use as security	0
I did not have enough income to qualify for a loan	4
I did not know how to apply for a loan	4
Afraid of loosing title because of corruption in Land Ministry	4
I did not have enough savings	0
I borrowed what I needed from other sources	4
I had no interest in building a house or buying land	0
I was scared of banks	18
Never considered taking a bank loan	46
Other reason	20
Nr. of responders	28
Nr. of non-responders	1

7.3 Incremental building

Did you construct your house by yourself?: Asked whether they constructed their house themselves or bought a finished house, almost all answered they constructed the house themselves. Only a few had bought a finished house, see Table 7.15.

Table 7.15: Are you constructing your house by yourself?

	Total sample	Regular job
Yes	97	95
NO, I bought a completed house	3	5
Nr. of respondents	35	22
Nr. of non-responders	28	18

Purpose with taking loan: The most common reason for taking a loan was to buy land, corresponding to almost three quarters of the answers, see Table 7.16. Half of those who used the loan to buy land, bought it from a property agent, for example, Jomayi Property Consultants, and one fifth bought the land from a private person. Those who answered other reason, explained that they had a loan from their employer, donation from friends, their own money and sale of asset. Among those who who had a regular job, building with the help of bank loans was a three stage process; first they took a loan to buy land (approximately three quarters), secondly they constructed a shell house (approximately two fifhts), and thirdly they took a loan to complete the home (two fifths).

Table 7.16: Purpose with taking loan [%] [multiple choice of answers].

	Total sample	Regular job
Buy land from a property agent, *e.g.* Jomayi	50	52
Buy land but not from a property agent	19	21
Construct an unfurnished house (a shell)	3	45
Complete existing house	3	14
Construct another house	0	0
Construct commercial building	6	3
Renovate	3	0
Install electricity and water	6	7
Buy a house	3	3
Other investment, please specify below	6	7
Nr. of responders	32	29
Nr. of non-responders	25	10

How long did it take to build the house?: They were asked about how many years that had passed between when they bought land and when they moved into the house. The answers show that the majority moved into their house within 4 years after buying their land, while many of them moved in as early as within one year, see Table 7.17.

Table 7.17: Years between buying land and moving into the house.

Year/s	Number of answers
Up to 1 year	13
2	9
3	11
4	14
5	2
6	3
7	1
Don't remember	3
Haven't moved into the house yet	5
Nr. of responders	61
Nr. of non-responders	2

Advantages and disadvantages of constructing incrementally: They were also asked about the advantages and disadvantages of building incrementally. It was an open question, *i.e.* no answer choices were given. The majority answered that they preferred this because it was cheaper and that they could choose the design they wanted. Other reasons were that they didn't want to rent a house, and that they did not want to have any pressure from the bank.

The disadvantages of constructing the house themselves were that they didn't trust builders, they had to live in a semi-finished house, it was very time consuming since they had to supervise the builders that made many mistakes and that they could only use local material for construction.

7.4 Housing as a source of income

How many rooms are you letting out?: 24 persons answered the question about how many rooms they were renting out, and only 5 answered affirmatively. Two persons answered that they rented out 2 rooms, while the rest of respondents answered 4,5, or 6 rooms.

If you are not renting out rooms, how many rooms are you planning to rent out?: Those not renting out any rooms were asked about how many rooms they planned to rent out. As on the previous question, there were relatively few who answered: only 23 persons. 12 people answered zero, one answered maybe, one person answered that he/she would rent out if their economic situation worsened and five persons answered between 3 and 24 rooms. Two people answered that they were going to rent out their house as a whole.

Do you think you could get a higher rent if you improved the conditions of the room/s you are letting out?: Those letting out rooms were asked whether they thought they could get a higher rent if they improved the conditions on the rooms that they were renting out. Approximately 70 per cent answered yes, while the rest, approximately 30 per cent answered that the question was not applicable for them. However, since only few respondents had answered that they rented out rooms, the number of respondents was only 11.

7.5 Summary

The large majority of respondents were young and well-educated with a high, regular income and had a formal land title under mailo land tenure. Approximately half of respondents had used a bank loan to finance their land and/or house. Among those having a bank loan, one third had a mortgage loan but then mostly short-term. The main reasons for neither taking a long-term mortgage loan, nor a short-term mortgage loan, were fear of losing their land if they would be unable to pay the loan instalments on time, that it was too complicated to apply for a mortgage loan, and that they believed that they were not qualified for a mortgage loan because of too low income.

The majority of those who had a bank loan had a short-term loan, usually a so-called salary loan. Salary loans are offered by banks to people who have a regular employment, where an insurance or the employer stands as guarantor that the loan will be paid back.

The most frequent reason for applying for a bank loan was to buy land. Among those with a regular income the incremental building process with the help of bank loans was a three stage process. First they bought land, thereafter they took another loan to construct a shell house and finally they took a loan to finish the house.

The time between buying land and moving into the house was between 1 to 4 years for the majority. Almost all had constructed their house themselves. The advantages of constructing by themselves were that they did not have the pressure from banks, they could decide their own design and it was cheaper than buying a finished house. The disadvantages included that it was time consuming, since they had to supervise the unskilled and often untrustworthy builders. Very few were renting out room/s.

Chapter 8

Slum Survey

The *the Slum Survey* is the first of the two surveys carried out in informal settlements. Respondents in the slum survey are assumed to be situated in the middle of the real estate pyramid, presented in the introduction of the thesis, see Figure 1.1. One purpose of the slum survey is to analyse the demand for bank loans, especially micro-loans, for investment in land and/or housing. The presentation of the survey follows the structure of the theoretical chapter, see Chapter 3. A detailed background to the survey is presented in the methodological chapter, see Chapter 2.1.3.

The chapter begins with questions related to potential demand for micro-finance loans, and thereafter questions related to actual demand for bank loans. The fourth part describes the incremental building process and the last part covers questions related to whether housing is a source of income.

8.1 Potential demand for bank loans

In this section the potential demand for bank loans, that are offered to people that live in informal settlements, and probably make their living from the informal economy, is investigated. The analysis is based on the banks' requirements for different types of loans, as described in Section5.4. Accordingly, I try to get information about whether their source of income is formal and/or informal and about their income level. Land ownership is also analyzed in order to evaluate if their land could be used as collateral for a bank loan.

8.1.1 Screening requirements

Capacity to pay back the loan and make down payments

What is the name of the area you live in?: The survey was delivered in five different informal settlements, Mbuya, Kinawataka, Bwaise, Najjanankumbi and Mutungo. The main reason for choosing these areas is that they are situated slightly outside the center of Kampala, where they were likely to have owners living in the houses (muzigos), i.e. not tenants. Another reason for choosing these areas was because their income level was considered to be higher than in the so-called Bukasa Survey, which is presented in next chapter.

The number of questionnaires that were collected in each area was similar, with the exception of Bwaise and Najjanankumbi, where there were a smaller number of respondents, see Table 8.1. When analysing the answers from the different areas, they turned out very similar and therefore, all questionnaires have been analysed together.

Table 8.1: What is the name of the area you are living in? [number of answers].

Area	Total sample
Mbuya	24
Kinawataka	25
Bwaise	12
Najjanankumbi	10
Mutungo	21
No. of responders	92
No. of non-responders	0

Age: Asked about their age most were between 36 to 55 years old, see Table 8.2.

Table 8.2: Age [%].

Age	Total sample
Below 26 years	1
26-35 years	16
36-45 years	32
46-55 years	36
56-65 years	12
Over 65 years	3
No. of responders	92
No. of non-responders	0

House-type: I asked what kind of house they owned, detached (single unit house), semi-detached house or muzigo/tenement, and it was an equal distribution of answers between the different kind of houses, see Table 8.3.

The reason for asking this was because I expected that other answers would be different between owners of different kinds of houses. However, this did not turn out to be the case and therefore all answers are analysed together, independent of the kind of house they owned.

Work contract?: In order to understand if they were formally employed or not, respondents were first asked what kind of work contract they had. Half of

Table 8.3: What kind of house/s do you own? [%].

Housetype	Total sample
Detached	31
Semi-detached	31
Tenement (Muzigo)	38
Other (please specify)	0
No. of responders	91
Number of non respondnets	1

respondents answered that they were employed, followed by one third that was self-employed, and almost one fifth that was both employed by someone and self-employed, see Table 8.4.

Table 8.4: Working contract [%].

	Total
Self employed	31
Contracted by someone	52
Both-self employed and contracted by someone	17
Number of answers	88
Number of non-responders	4

How much do you earn every month?: They were also asked about their monthly earnings. Their answers suggest that there were large differences in income level: from UGX 200 000 to UGX 1 500 000 a month. The most common answers were UGX 200 000 and UGX 400 000 a month, see Table 8.5.

Occupation: The differences in income among respondents can be explained by their wide range of occupations, see Table 8.6. Examples were: businessman/woman, teacher, market vendor, driver, nurse, social worker, headmaster, doctor, carpenter, teacher, accountant, hairdresser and housewife.

Land as potential collateral

A number of questions related to land ownership were asked, in order to find out whether respondents owned land, which could be used as collateral for any type of bank loan.

Do you own the land?. They were first asked whether they owned the land they lived on. Most, four fifths, answered that they owned the land, see Table 8.7.

If you own the land, what kind of land tenure do you have?: Those who answered that they owned land were further asked about land tenure. As shown in Table 8.8 half of respondents answered that they had private mailo, followed by one third that

Table 8.5: How much do you earn every month in UGX? [number of answers].

	Total sample
$\leq$ 200 000	15
300 000	4
400 000	11
500 000	16
600 000	8
700 000	7
800 000	9
900 000	4
1 000 000	10
1 500 000	4
2 000 000	3
No. of responders	91
No. of non-responders	1

Table 8.6: What is your occupation?

Occupation	No. of answers	Occupation	No. of answers
Business man/woman	14	Shop attendant	3
Teacher	10	Civil worker	3
Manager	7	Housewife	2
Market vendor	5	Carpenter	1
Headmaster	5	Hairdresser	1
Security	4	Retired	1
Doctor	4	Director	1
Bazar	4	Secretary	1
Security	4	Butchler	1
Accountant	3	Server	1

Table 8.7: Do you own the land? [%].

	Total sample
YES	86
NO	14
No. of responders	89
Number of non respondents	3

answered that they had leasehold and around one tenth of respondents answered they had customary land, or that they did not know.

Table 8.8: If you own the land, what kind of land tenure do you have? [%].

	Land owners
Private mailo	48
Leasehold	30
It is family land	13
I do not know	9
Other, please specify	0
No. of responders	77
Number of non responders	0

If you own the land, what kind of ownership you have?. In order to know if they had a formal land title or not, a question was asked about their kind of ownership. As shown in the Table 8.9, approximately one third answered that they had a formal land title, i.e. land that was registered in the land ministry, and almost one third answered either that their title was in process to get registered, or that they had Kibanja land. One tenth of respondents answered that they did not know.

Table 8.9: If you own the land, what kind of ownership you have? [%].

	Land owners
I have a title registered in Land Ministry	38
Title is in process	27
It is Kibanja land	26
I do not know	9
No. of responders	77
No. of non-responders	0

Would you like to legalize/process your title in the land ministry?. Those who did not have a land title of their land were asked whether they would like to achieve that. The majority of respondents (four fifths) answered yes, while some (one tenth) answered no and some few answered that they did not know, see Table 8.10.

If you don't have a land title registered in the land ministry, what is the reason/s for not having processed your title so far?: Those who did not have a land title registered in land ministry, were also asked about the reason/s why they had not registered their title. As shown in the Table 8.11 there was a clear pattern of answers. Approximately half of respondents answered that it was too complicated, one third answered it was too expensive but less than one tenth answered that they feared corruption in land ministry.

Table 8.10: Would you like to legalize/process your title in land ministry? [%].

	Land owners without a title
YES	84
NO	9
I do not know	7
No. of responders	43
No. of non-responders	6

Table 8.11: What is the reason/s you haven't processed your title in land ministry so far? [%], [multiple choice of answers].

	Those not having a land title
The process is too complicated	42
The process is too expensive	33
I am not afraid of being evicted	2
I see no advantages of having a formal land title	0
I fear corruption in the land ministry	0
I do not know	12
No. of responders	42
No. of non-responders	7

8.2 Actual demand for bank loans

The actual demand for bank loans, especially micro-loans, is investigated in this section. I first asked how respondents had financed their house and land. If they had not used any bank loan, the reasons were investigated.

How did you finance your house and land?: When asked how they financed their house, the most common answer was that they used savings (half of the answers), followed by the fact that they had a bank credit (less than a fifth of the answers), and thirdly those who answered that they inherited the house (approximately one tenth of the answers), see Table 8.12. Approximately five percent answered one of the remaining answer options: credit from microfinance organization, credit from community group or friends/family members.

The answer options: loan from a bank, community organization and microfinance organization, may be interpreted in diverse ways, since there is no clear difference between the shifting types of loan. However, since the purpose of this survey was to increase our knowledge about their perceptions concerning bank loans and how they had financed their land and house, it does not matter if microfinance- and bank loans are interpreted differently. Also, one can predict what kind of loans they had used by looking at their characteristics, such as employment, income and land ownership.

Table 8.12: How did you finance your house and land? [%] [multiple choice of answers].

	House	Land
Inherited it from family	12	20
Savings	46	46
Credit from microfinance organisation	6	1
Credit from bank	16	22
Credit from community group	6	2
Credit from friends/family members	5	4
Credit from moneylenders	8	7
Other	2	2
No. of responders	92	90
No. of non-responders	0	2

Reasons for not taking any bank loan: Those who had not taken any loan for the construction of the house and/or to buy the land were asked about the reasons why. The most common answer was that the interest rate was too high (approximately two fifths), followed by those who answered that they could not pay back the loan immediately (almost one fifth), and/or that they did not know how to apply for a loan (one tenth of answers), see Table 8.13. Furthermore, as also shown in the Table, few (around one tenth) answered that they were afraid of losing their land title if they could not pay back the loan, or that they feared corruption in the credit organization, or that that the (possible) loan amount was too small.

8.3 Incremental building

Respondents were further asked questions, related to incremental building.

In case you used savings to buy land, how long (many years) did it take for you to save money for buying the land?: Those who answered that they used savings for buying land were asked about how long time it took for them to save money to buy the land. Most answers were in the interval of one year up to 7 years, with a peak at 4 years, see Table 8.14. However, there were more respondents than it should be, which suggests that more people used savings than those who had answered they used savings which is quite logical.

Did you pay your land in instalments: Of those who answered that they bought their land in instalments, approximately one third answered that they paid their land in instalments to the seller of the land, see Table 8.15.

A land agreement is a legal document binding the seller and buyer to a land transaction. It is usually prepared by a lawyer, on behalf of the parties. The

Table 8.13: Reason/s for not taking a bank loan? [%] [multiple choice of answers].

	Those that had not taken any bank loan
Interest rate too high	42
Amount too small	9
Can't pay back immediately	16
Don't know how to do	10
Afraid of corruption in the credit organisation	7
Afraid of loosing title	7
Not accepted by the bank	0
Too expensive	9
Other	0
No. of responders	69
No. of non-responders	4

Table 8.14: In case you used savings to buy land, how long (many years) did it take for you to save money for buying the land? [number of answers].

	Respondents that used savings for acquiring land	All answering the Q
1 year	1	3
2 years	7	8
3 years	3	3
4 years	10	13
5 years	13	6
6 years	3	7
7 years	2	3
Don't know	1	7
No. of responders	40	78
No. of non-responders	2	0

land agreement contains basic information about the land, including size of land, location, status of ownership and any encumbrances (e.g. any tenants on the land or bank mortgage). The land agreement also describes the terms of payment, including the amount of money to be paid and the schedule of payment. The agreement is binding to both parties, though it cannot be used as proof of ownership without a land title. Any party can however sue or be sued on the basis of the land agreement (Personal interview Kampala City Council).

Table 8.15: Did you pay your land in instalments? [%].

	Total sample
YES	37
NO	49
I did not buy my land	14
No. of responders	87
No. of non-responders	5

How long did it take for you to build the house?: Respondents who had not inherited their house were asked how long it took them to build their house. As shown in Table 8.16 the answers were in the interval of 1-5 years, with a peak at 1-2 years.

Table 8.16: How long did it take for you to build the house? [No. of responders].

	Total sample
1 year	17
2 years	27
3 years	12
4 years	15
5 years	5
6 year	1
I don't know	1
Inheritated it	1
No. of responders	79
No. of non-responders	2

8.4 Housing as a source of income

In order to find out if respondents used their houses for generating an income, a number of questions were raised.

Are you renting out rooms?. They were first asked whether they they rented out rooms. Approximately half of respondents answered that they were renting out rooms, see Table 8.17.

Table 8.17: Are you renting out rooms? [%].

	Total sample
YES	45
NO	55
No. of responders	91
No. of non-responders	1

How many rooms are you renting out?. Those renting out rooms were asked how many rooms they rented out. As shown in Table 8.18 it was most common to rent out two or four rooms.

Table 8.18: How many rooms are you renting out? [number of answers].

No. of rooms	Total sample
1	1
2	13
3	3
4	9
5	6
6	4
7	2
8	1
12	1
18	1
No. of responders	41
No. of non-responders	0

How much is the rent for each room per month?. Those who rented out room/s were also asked how much they charged for each room monthly. As shown in the Table 8.19, the most common answer was UGX 50 000 per month, and most of the remaining answers were up to UGX 100 000 a month, even though a few charged up to UGX 350 000 per month.

Is the income from letting out rooms your main source of income?. Those renting out rooms were also asked whether that income was their main source of income. One fifth answered that letting out rooms were their main source of income, and four fifths answered no, see Table 8.20.

Are you living at the same place as where you are letting out rooms?. Asked whether they lived in the same place as where they were renting out rooms, ap-

Table 8.19: How much is the rent for each room per month? [UGX], [number of answers].

Rent	Those letting out room/s
10 000	1
40 000	3
50 000	11
60 000	2
70 000	7
80 000	3
90 000	2
100 000	7
150 000	2
180 000	1
300 000	1
350 000	1
No. of responders	41
No. of non-responders	0

Table 8.20: Is the income from letting out rooms your main source of income? [%].

	Those renting out room/s
YES	21
NO	79
No. of responders	41
No. on non-resonders	0

proximately half of respondents answered yes, while the other half answered no, see 8.21.

Table 8.21: Are you living in the same place as where you are letting out rooms? [%].

	Those letting out room/s
YES	55
NO	45
No. of responders	41
No. of non-responders	0

Do you think you could get a higher rent if you improved the standard of the room/s you are letting out?. On the question whether they thought they could get a higher rent, if they improved the standard on the room/s they were letting out, everybody answered affirmatively, see Table 8.22.

Table 8.22: A higher rent if better standard on the room/s rented out?[%].

	Those letting out room/s
YES	98
NO	2
No. of responders	41
No. of non-responders	0

8.5 Summary

Many of respondents were working both as employed and self-employed. There was a wide range of occupations among respondents, and most of them indicated that they worked in the informal economy. Their monthly income ranged from around UGX 200 000 to UGX 1 500 000 a month, with the largest number at UGX 600 000 per month.

Approximately half of those who owned land, answered that their land had mailo tenure, followed by those who had leasehold, family land and some didn't know what kind of land tenure they had.

Approximately two thirds of those who owned land had a formal land title, while one third didn't know whether they had a title or not. There was a clear demand for formalizing the land among those who do not have a land title. The most common reasons for not formalizing their land were that it was too complicated and expensive, followed by their fear of corruption in land ministry and that they didn't know how to do it.

There were no major differences between how the house and land was funded. Savings was the most common source of funding, followed by a bank loan. The main reasons for not taking any bank loan, for either buying land or a house, were too high interest rates and that they couldn't make repayments shortly after taking the loan.

The time that was required to save money to buy their land differed among respondents, from less than one year up to ten years, with the highest number at 6 years. Most respondents built their houses during a time period of up to two years.

Half of respondents rented out rooms. They all considered that they could get a higher rent, if they improved the standard of the rooms they rented out. Most rented out two rooms at a price around UGX 50 000-70 000 per month. For most of them the rental income was not their main source of income.

Chapter 9

Bukasa Survey

One objective of the Bukasa Survey was to analyze the potential and actual demand for credit to be used for acquiring housing and land in an informal settlement, located in an area called Bukasa. Respondents of the survey are assumed to be placed in the lower segment of the real estate pyramid, presented in the introduction to the thesis, see Figure 1.1, and below respondents to the Slum Survey which was presented in the previous chapter. The questions were related to the issues covered in the theoretical chapter, especially aspects related to housing loans in the informal economy, see Chapter 3. The choice of area, the selection of respondents and the structure of the questionnaire are presented in the methodological chapter, see Chapter 2. This chapter is structured as follows; the first part covers the potential demand for micro-loans for investment in land and housing, the second part describes the actual demand for bank loans for housing investments and the last part investigates if housing is a source of income.

9.1 Potential demand for bank loans

The potential demand for bank loans are primarily investigated by looking at whether respondents would qualify for a loan, according to the banks requirements when screening potential borrowers for micro-loans, as described in Chapter 5.4.

9.1.1 Screening requirements

Capacity to pay back the loan and make down payments

Housetype: Asked about what kind of house they owned, one fifth answered that they owned a detached house and two fifths answered they owned a semi-detached and a muzigo house respectively, see Table 9.1.

The reason for asking this was because I expected answers on the subsequent questions to differ, depending on the type of house they owned. It was however found that this was not the case, and therefore no distinction is made between housing types in the following description and analysis.

Photo: Annika Nilsson

Figure 9.1: A typical example of the environment in the Bukasa slum.

Table 9.1: What kind of house do you own? [%].

Total sample	House type
Detached	23
Semi-detached	39
Muzigo	38
No. of responders	117
No. of non-responders	0

Working contract: In order to find out if respondents had a formal or informal source of income, they were asked about what kind of work contract they had. As shown in Table 9.2 most of them (almost two thirds) were self-employed, one third was contracted by someone, while one tenth of respondents answered that they were both self-employed and contracted by someone. Looking back, it would have been good to also include the option to answer unemployed and/or looking for a job. It might also have been better to ask if they were paid per hour, weekly or monthly, in order to get a better idea about their source of income.

What is your occupation?: They were also asked about their occupation. As

Table 9.2: What kind of work contract do you have? [%].

	Total sample
Self-employed	57
Contracted by someone	33
Both self-employed and contracted by someone	10
No. of responders	105
No. of non-responders	12

shown in Table 9.3 there was a wide variation of answers on this question, for example, farmer, pastor, landlord, raising hens, fisherman and herder.

Table 9.3: Occupation [number of answers]

Occupation	No. of answers	Occupation	No. of answers
Farmer	11		
Driver	11	Doctor	2
Shop keeper	9	Peasant	2
Pastor	7	Butcher	2
Company	7	Electrician	1
Businesswoman/man	6	Journalist	1
Nurse	6	Builder	1
Market vendor	4	Fisherman	1
Landlord	4	Take care of my grandson	1
Teacher	4	Carpenter	1
Security	3	Manual labourer	1
Engineer	2	Sheki (teacher in mosque)	1
Houseworker	3	Hens raising	1
Policeman/woman	3	Herder	2

How much do you earn every month in Ugandan Shillings?: Respondents' answers about income levels showed very large differences. One large group answered below UGX 60 000, but there were also many in the interval UGX 100 000 and UGX 500 000: see Table 9.4.

Land as potential collateral

Do you own the land?: When asked if they owned the land where they lived, approximately three quarters answered yes, while one third answered that they did not own the land, see Table 9.5.

Do you have a formal land title?: Those who answered that they owned their land were further asked if they had a formal title on their land. As shown in Table 9.6, three fifths of those owning land answered yes while two fifths answered no.

Table 9.4: How much do you earn every month in Ugandan Shillings? [number of answers].

Salary	No. of responders
30 000 – 40 000	19
50 000 – 60 000	12
70 000 – 80 000	2
90 000 – 100 000	9
100 000 – 150 000	12
200 000 – 250 000	11
300 000 – 350 000	17
400 000	4
500 000	11
600 000	7
700 000	1
1 000 000	3
1 400 000	1
2 500 000	1
No. of responders	110
No. of non-responders	7

Table 9.5: Do you own the land? [%].

	Total sample
YES	74
NO	26
No. of responders	105
No. of non-responders	12

Table 9.6: Do you have a formal land title? [%].

	Land owners
YES	60
NO	40
No. of responders	68
No. of non-responders	10

Does the land belong to the family?: Those who owned the land were also asked whether the land belonged to the family. As shown in the Table 9.7, half of them answered that the land belonged to the family. However, when looking at how the total sample answered the question it was evident that more people answered the question, than those who said that they owned the land. All answers are included in Table 9.7. As shown, most of respondents (approximately three fifths) answered that the land belonged to the family.

When looking closer at those who answered that the land belonged to the family, approximately fifty per cent of them answered NO on the previous question about whether they owned the land or not. This indicates that the question might have been misinterpreted. It is also possible that those answering that the land belonged to the family, were not considering themselves as the real owners. The possible misunderstanding of the question is further analysed by checking how those who said that they did not own land, answered the question about whether the family owned the land or not. As shown in the Table below 9.8 almost all of them answered the question, i.e. 22 people out of 28. Most of them, four fifths, answered that the land belonged to the family, while one fifth answered that the family did not own the land. This shows that there were actually only 4 people who answered, that neither they nor the family owned the land.

Table 9.7: If you own the land, does the land belong to the family? [%]

	YES on previous Q Land owners	All answering the Q Total sample
YES	48	61
NO	52	39
No. of responders	50	79
No. of non-responders	28	38

Table 9.8: If you do not own the land, does the land belong to the family?, [%].

	Those not owning the land
YES	82
NO	18
No. of responders	22
No. of non-responders	5

If the land belongs to the family, does the family have a formal land title?: As shown in Table 9.9 approximately three quarters of respondents answered that the family had a formal land title. It is however unclear if they really knew what formal ownership implies.

Table 9.9: Does the family have a formal land title? [%].

	Those answering the land belonged to the family
YES	72
NO	28
No. of responders	39
No. of non-responders	9

What other type of land rights do you have?: Asked if they had another type of land rights, 10 out of 11 respondents answered that they had a land agreement, while one person had Kibanja land. All those who answered that they had a land agreement, also answered that they owned the land. Thus there might be more respondents who did not really own the land than those who answered that they did not. The answers could also be interpreted in a way that suggests that those having a land agreement considered that they had the secure right and therefore were the real owners.

If you do not have a formal land title would you like to legalize your title?: Those without a formal title were asked if they would like to formalize/legalize their ownership. As shown in Table 9.10 three quarters answered yes, while one quarter answered no. When looking at how the total sample answered this question, it turned out that there were more respondents than expected who answered the question. Anyway, the answers from the total sample are also presented in Table 9.10. As shown, there was a similar distribution of responses among those who "should" have answered the question and the total sample.

Table 9.10: If you not have a formal title would you like to legalize your title? [%].

	No formal land title	All answering the Q Total sample
YES	74	58
NO	26	42
No. of responders	27	57
No. of non-responders	0	0

Reasons for not formalizing land: Those who owned land and didn't want to formalize their land, were asked about reasons for this. As shown in the Table, see 9.11, most (approximately three quarters) answered that it was too expensive and the rest, one quarter, answered that it was too complicated. No one answered that they were afraid of being evicted, or that they did not see any advantages in having a formal land title.

Table 9.11: Why do you not want to have a formal land title on your land? [%].

	Total sample
The process is too complicated	30
The process is too expensive	70
I am not afraid of being evicted	0
I see no advantages of having a formal land title	0
Other	0
No. of responders	20
No. of non-responders	1

9.2 Actual demand for bank loans

The actual demand for bank loans, especially micro-loans, is investigated in this section. I first asked how respondents had acquired their house and land. If they had not used any bank loan, the reasons were investigated.

How did you acquire your land and house?: To analyse the actual demand for bank credits, respondents were first asked how they had acquired their house and land. As shown in the Table 9.12 there was a clear pattern of answers. The most common way of funding the house (half of respondents) was by savings, followed by those (approximately one third) who had inherited their house. As for the obtaining of the land a clear majority (approximately two thirds) had inherited it, followed by those (one fourth) who had used savings. Only a few had taken some kind of loan; such as loans from friends, banks, microfinance organisations and/or moneylenders.

Table 9.12: How did you acquire your house and land? [%], [multiple choice of answers].

Total sample	House	Land
Inheritated it from family	32	63
Savings	48	25
Credit from microfinance organisation	3	1
Credit from bank	5	5
Credit from community group	4	1
Credit from friends/family members	4	4
Credit from moneylenders	2	0
Other	5	5
No. of responders	64	93
No. of non-responders	8	24

Do you plan to take a loan to buy land or formalize your land?: Respondents that did not have a formal land title were asked if they planned to take a loan to buy land or to formalize their land ownership. Most (three fifths) answered yes, while the rest answered no, see Table 9.13. Looking back, I should have included the option "I don't know" in the questionnaire.

Table 9.13: Do you plan to take a loan to buy land or formalize your land? [%].

	Total sample
YES	40
NO	60
No. of responders	111
No. of non-responders	6

If you answered no, why do you not plan to take a loan to buy/formalize your land?: Those who answered that they did not plan to take loan in order to legalize/formalize their land title, were asked why. Most of respondents (almost three fifths) answered that the interest rate was too high, followed by those (one fifth) who answered that they couldn't pay back immediately, see Table 9.14. As also shown in the table, few responded with the remaining options: "that the loan amount was too small", "don't know how to do", "afraid of loosing the land title", "not accepted by the bank" and/or the answer option "other reason". Those who answered *other reason* said that they were too old and that they got money from the church. No one answered that they were afraid of corruption in the credit organisation.

Table 9.14: Why do you not plan to take a loan to buy/formalize your land? [%], [Multiple choice of answers].

	Total sample
Interest rate too high	56
Amount too small	2
Can't pay back immediately	22
Don't know how to do	8
Afraid of corruption in the credit organisation	0
Afraid of loosing title	5
Not accepted by the bank	3
Other reason	9
No. of responders	64
No. of non-responders	2

Do you plan to take a bank loan to improve/add more rooms/or buy a house?: Respondents were also asked if they planned to take a loan to improve/add more rooms or to buy a house. Approximately two fifths answered yes and three fifths answered no, see Table 9.15. Also here I should have included the option "I don't know".

Table 9.15: Do you plan to take a bank loan to improve/add more rooms or buy a house? [%].

	Total sample
YES	43
NO	57
No. of responders	107
No. of non-responders	10

If you answered no, why do you not plan to take a loan to improve/add more rooms/or buy a house?: Those who answered that they did not plan to take any loan to improve/add more rooms/or buy a house were further asked about the reasons why. As shown in the Table 9.16 the main reason (approximately half of answers) was that the interest rate was too high, followed by those (one fifth) who answered that they couldn't pay back immediately. Only a few chose the remaining options: "the amount to small", "afraid of losing land title", "not accepted by the bank", and "other reason".

Table 9.16: Why do you not plan to take a loan to improve/add more rooms/or buy a house?, [%] [multiple choice of answers].

	Total sample
Interest rate too high	56
Amount too small	2
Can't pay back immediately	20
Don't know how to do	8
Afraid of corruption in the credit organisation	2
Afraid of loosing title	7
Not accepted by the bank	3
Other	8
No. of responders	61
No. of non-responders	0

9.3 Housing as a source of income

In this section I will investigate whether respondents are using their houses as a source of income by renting out rooms.

Are you renting out rooms?: As can be seen in the Table 9.17, approximately two fifths answered that they rented out rooms, while three fifths answered that they did not.

Table 9.17: Are you renting out rooms? [%].

	Total sample
YES	41
NO	59
No. of responders	115
No. of non-responders	2

The picture below shows an example of a house in the Bukasa Slum, where the owner in the picture has extended the house by two rooms (on the right side in the picture), that he is renting out. The owner of the house is working as a driver. He got the land from his family and did not take any loans to build the rooms and explained that each room took three months to build, due to limited savings. In fact, this house has a much higher standard than most houses in the Bukasa Slum.

Photo: Annika Nilsson

Figure 9.2: Rooms for rent in a residential house.

How many rooms are you renting out?: Those who rented out rooms were asked how many rooms they rented out. As shown in the Table 9.18 4 rooms was the most common answer, and the remaining answers ranged between 1 room to 18 rooms, but few answered more than seven rooms.

Table 9.18: How many rooms are you renting out? [number of answers].

No. of rooms	No. of answers
1	5
2	9
3	2
4	13
5	2
6	4
7	3
8	1
9	1
10	2
15	1
18	1
No. of responders	44
No. of non-responders	3

How many rooms did you rent out two years ago?: Those renting out rooms were also asked about how many rooms they rented out two years ago,in order to see if this was a long term-activity or not. As shown in Table 9.19 the most common response was that they already two years ago rented out some rooms, and most of those who did rented out 1-4 rooms.

Table 9.19: How many rooms did you rent out two years ago? [number of answers].

No. of rooms	No. of answers
0	7
1	4
2	3
3	5
4	6
5	2
6	4
7	1
10	3
14	1
15	1
No. of responders	37
No. of non-responders	10

How much is the rent for each room, per month?: Those renting out room/s were asked about the rent charged per room, per month. The answers were in the interval of UGX 10 000 to UGX 80 000 a month, although the most common answers were UGX 50 000 and below, see Table 9.20.

Table 9.20: How much is the rent for each room, per month? [UGX] [number of answers].

Rent per month	Number of answers
10 000	7
15 000	5
30 000	4
40 000	9
50 000	14
60 000 – 70 000	3
80 000	2
No. of responders	44
No. of non-responders	3

Is the income from renting out rooms your main source of income?: Those who rented out rooms were further asked whether their income from renting out rooms was their main source of income. As shown in Table 9.21 almost one third answered that question affirmatively and the rest answered no.

Table 9.21: Is the income from letting out rooms your main source of income? [%].

	Total sample, percentage
YES	27
NO	73
No. of responders	45
No. of non-responders	2

Do you live in the same place as where you are renting out rooms?: Those who rented out room/s were also asked if they lived in the same place as where they were letting out rooms. Three quarters of respondents answered yes while the rest answered no, see Table 9.22.

Do you think you could get a higher rent if you improved the conditions of the room/s you are renting out?: Those who rented out rooms were finally asked if they thought that they could get a higher rent if they improved the conditions of the room/s that they were letting out. As shown in Table 9.23 practically all answered that they think they could charge a higher rent, if they improved the conditions of the rooms.

Table 9.22: Do you live in the same place as where you are letting out rooms? [%].

	Total sample, percentage
YES	77
NO	23
No. of responders	43
No. of non-responders	4

Table 9.23: Higher rent if improved conditions? [%].

	Total sample
YES	91
NO	9
No. of responders	44
No. of non-responders	3

9.4 Summary

Most of respondents were self-employed, especially if one includes those who were both self-employed and employed, and they earned up to UGX 50 000 per month. Approximately three quarters owned the land where they lived, and among them three fifths answered that they had a formal land title. Those who did not have a formal land title would like to have one, and the reasons for not formalizing their land were mainly that it was too expensive and complicated. The most common way of acquiring land was that they inherited it, followed by the use of savings. Most used savings to acquire their house, followed by those who had inherited it. Very few had taken any kind of loan for acquiring their land and/or house. The main reasons for not taking any loan from a bank were that the interest rate was too high, or that they could not pay back the loan immediately. Approximately two fifths rented out rooms and almost all of them believed that they could get a higher rent, if they improved the standard of the rooms.

Chapter 10

Analysis of the supply and demand side of housing loans in Kampala

Limited use of long-term finance, such as mortgages, is often seen as a symptom of market failures and policy distortions, since long-term financing instruments are believed to be disproportionately affected by these failures and distortions. However, the limited use of long-term finance may not be a problem in itself. Instead it can be a rational choice, which reflects both demand and supply of contracts with longer time maturities. And it may involve trade-offs, concerning the distribution of risk for borrowers and providers of credit.

Previous research has mostly focused on the relation of formal land ownership and access to credit on the supply side, rather than the demand side of the credit market, since demand has been seen as a function of income, see for example Warnock and Warnock (2008). Hence they have been unable to study the reasons behind the use of different types of credit and how households finance their land and houses. These issues will be discussed in this chapter, which analyses the material presented in previous chapters on the supply and the demand of bank loans for investment, in residential land and housing construction in Kampala.

The first part of the chapter discusses the development of the supply side of the financial sector in Kampala, with emphasis on the constraints to increase the outreach of long-term mortgages. Thereafter, the four micro-level surveys on the demand side of housing loans are discussed. The surveys on the demand side are divided into two parts. Chapter 10.2, discusses the Centenary Bank Survey and Jomayi Survey and Chapter 10.3 discusses Slum Survey and Bukasa Survey.

The reasons for discussing the Centenary Bank Survey and Jomayi Survey together are mainly that: *i)* both surveys primarily focus on access to loans from the largest banks in Uganda, *ii)* respondents in the Centenary Bank Survey were in the process of buying land and constructing a house at the time of the survey. I never asked how much they had built on the house. I could however assume they were building incrementally, since very few applied or planned to apply for a long-term mortgage loan, which is the only type of loan that covers a whole house. All respondents in the Jomayi-Survey had bought their land some years before the survey and had constructed their houses to a level that made it possible to live in the houses in the selected residential area, at the time of the survey, *iii)* Centenary Bank had at the time of the survey, a partnership with Jomayi Property Consultants, that aimed to facilitate the purchase of land from Jomayi, when the land would be used as security for a loan in Centenary Bank; *iv)* in the Centenary Bank Survey all respondents were applying for a loan in Centenary Bank for buying land and or constructing their house. In the Jomayi Survey, on the other hand, I didn't know whether respondents had taken any loan at all, and *v)* I expected that respondents in the two surveys would represent two different income segments, in the upper part of the real estate pyramid. The Centenary Bank Survey was supposed to represent people just below the top part of the real estate pyramid, *i.e.* potentially close to the long-term mortgage market. The Jomayi-Survey was expected to represent people both within the top part of the real estate pyramid and just below the top part of the real estate pyramid.

The Slum Survey and the Bukasa Survey will also be discussed together. The reasons are the following: i) the Slum Survey and Bukasa Survey focus on access to and use of micro-finance loans, especially loans secured on land, provided by financial intermediaries targeting the low income population, ii) both surveys were carried out in informal settlements, but aimed to target different segments of those informal settlements, *i.e.* different segments of the real estate pyramid. I did not intend to target people at the bottom of the real estate pyramid and therefore I did not choose any of the slum areas with the highest poverty indices.

10.1 The financial sector and constraints to increase outreach of housing loans

After two decades of repressive financial policies, the Ugandan financial sector was in a bad condition. The reforms implemented in the nineties constituted an important attempt to improve the financial sector. The privatization of the Uganda Commercial Bank was one of the key reforms to spur growth and reduce risks for instability in the financial system. The financial reforms were accompanied by a wide range of economic reform programs, which contributed to create macroeconomic stability, positive real interest rates and a growing banking system.

After some turbulent years in the nineties, the supervisory authorities have been effective in managing the risks involved in the growth and development of the financial sector. In particular, the Bank of Uganda has played a leading role in using regulatory supervision to maintain stability.

The passage of the new FIA Act of 2004, which conforms to international standards, has also helped to make the banking system well capitalized, profitable and resilient. Non-withstanding the reforms and the rapid growth of the banking sector, remain relatively underdeveloped. There has been an increase in financial depth following the reforms, which is mainly attributable to an increase in deposit mobilisation. However, the level of deposit mobilisation is still low compared to neighbouring countries. The ratio between time and savings deposits and total deposits has increased, which indicates a development towards longer maturities of private deposits. Despite this, bank lending to the private sector has not increased as much as expected. Although the situation is improving, especially during the years before the global financial crisis, Uganda still lags behind many of its neighbours. Although private lending has increased, it still constitutes only approximately half of the commercial banks' assets.

The efficiency of formal financial intermediation still remains relatively low. Interest rates spreads, which are much higher than in most other regions of the world, in combination with a growing demand for loans, a decrease in non-performing loans and low competition between the largest banks have provided these banks with high profits.

Moreover, banks have been holding large amount of excess reserves, that have not been transferred to the private sector as much as expected. Instead the balance sheets of Ugandan banks have been dominated by foreign assets and government paper. The monetary transmission mechanisms filter down from the Central Bank Rate to commercial bank interest rates, and they determinate not only the lending rates available to consumers, but also the lending rates available to commercial banks. Therefore, expansionary monetary policy should be correlated with lower interest rates and higher lending volume. While there is a significant effect of higher treasury bill rates as well as lending rates, lending has not reacted to changes in the treasury bill rates, suggesting that policy rates have had only limited impact on banks' credit decisions. This indicates that banks consider expansion of lending too risky. The easy, secure and relatively high-yielding treasury bill instrument has instead added to the already rather high returns of the banks and financial intermediation of formal loans remains limited. Less than a third of the population has access to the formal financial system. Consequently, when it comes to whom the commercial banks target, the segmentation of the financial sector remains after financial liberalisation. And there is not a diminished role of short-term finance, which indicates that the reason for the lack of intermediation to the private sector is not only a shortage of resources.

Uganda has made progress in securing a stable macroeconomic environment, which is a necessary but not a sufficient condition for increased lending to the housing sector. Legally, Kampala is considered to have a system of land, law and registration and a mortgage law that should be ideal for a mortgage finance system. The mortgage act was passed by Parliament in April 2009 and become an Act in October 2009. The role of the Government as an enabler rather than a provider has not increased the supply of housing. Instead, there is a growing housing deficit, both in terms of absolute numbers and the quality of the housing stock, which is particularly evident in urban areas like Kampala where informal settlements are expanding.

To reduce asymmetric information problems, associated with extending long-term mortgages, *i.e.* housing loans, and to increase the chances of loan repayment the banks in Uganda typically require formal proof of income and collateral in the form of a certificate of urban land title. Access to a long-term credit is limited to those who are able to afford significant down payments and therefore pay less than a specific share of their income for repayments each month, typically around 35 per cent. Employment in the formal sector, public or private, should be verifiable and be paid regularly, and the land should be situated in a well- developed urban area. Mortgages have an average term of 20 years with a variable interest rate and are given financing to cover 50 to 70 percent of the costs required to complete construction. The reason for this is that banks prefer to finance individuals who have completed what is locally known as a shell house (foundation, walls and roof). Ugandan authorities have taken steps to address the information asymmetries in the credit market, through improvements in the credit bureau and ID-card identification. However, their coverage is still limited. Furthermore, the mortgagor is obliged to give a spousal consent but there is no spousal register.

There is clear ownership of land, in practice largely under the *Mailo* system, which can be seen as analogous to freehold. Mortgage banks have adequate rights to realize their security. Customary land can also be mortgaged but as it is not registered, an equitable (contractual) rather than a legal mortgage is created. Land and house prices have been increasing strongly during the last years, especially in peri-urban areas. This fast growth has raised concerns about a real estate bubble. As a result of this the Bank of Uganda and Uganda Bureau of Statistics have started to compile a property price index.

So what are Kampala's housing finance intermediation constraints? Although the real estate market and the housing deficit is growing, it is mostly customers at the very top end of the income segment that qualify for long-term mortgage loans. High interest rates, around 20 per cent, contribute to the consequence that even these high income earners repay long-term mortgages as soon as possible, generally within 10 years. In spite of the fact that the number of banks that have entered into long-term mortgage market has increased from one in 2001 to five in 2011, there is little competition.

The existence of reliable land registries are important to support the process of extending mortgages. In Uganda high costs and lengthy transaction procedures are associated with land registry searches and registration of mortgages. Individuals and mortgage lenders are also exposed to corruption risks arising from uncertainties in the registration process. It is, for example, common to use faked land titles. Programs to digitalize the land registration system and pressure from banks on the Land Ministry have contributed to improving the quality and to speed up the registration process.

The land tenure systems have implications for the availability of collateral and the supply of land and housing. The regulatory framework consists of various rules and regulations, creating a high degree of uncertainty and inefficiency. The frequency of dual ownership taints the value of mailo land, as banks fear that dual ownership rights will be revealed after a loan has been granted. Banks are reluctant to lend money with customary tenure as collateral, due to the difficulties in seizing the collateral in case of default and also difficulties in selling a property under customary tenure.

Commercial services, which are an important part of housing finance, such as valuation and surveying, are available in the market and are being offered by a number of privately owned and competing firms. However, there are few firms that are credible which make these services expensive and clients have to wait for that service. Also, there is a lack of serviced land that can be mortgaged.

Growth of the housing finance market has also been slowed by a shortage of long-term funding. Most of the banks' deposits are of short-term nature. The secondary market is not well developed. The pension funds as a possible source of long-term funds are relatively underdeveloped.

10.2 The Centenary Bank Survey and the Jomayi Survey

10.2.1 Potential demand for long-term mortgages

A potential demand for long-term mortgages was investigated in this research project, through questions related to respondents ability to fulfil the banks' requirements for such loans. The questions on access for long-term mortgage loans were thus focused on their age, on whether they had a regular income that was sufficiently high and, in case they owned land, which tenure the land had and if they had a formal land title and where the land was situated.

Screening requirements

Capacity to pay back the loan and make down payments

When asked about their age, the answers in both surveys indicate that respondents were representing a rather young group as most of them were between 26 and 45 years old. Questions about the income level are usually considered a sensitive subject. I therefore used a variety of survey questions to measure respondents' income. I asked what kind of employment status they had: were they self-employed, did they have a regular job with monthly payment, or were they casual workers. I also asked what education level they had. Having a regular income and higher education are correlated with a larger income according to (Uganda Bureau of Statistics (2014b)), (Namirembe et al. (2015)), (FinScope (2013)).

In both the Centenary Bank- and Jomayi Survey most respondents had a regular job that was paid weekly or monthly, corresponding to three quarters in the Centenary Bank Survey and two thirds in the Jomayi Survey. Approximately one third had their own company. Some also answered that they were both employed and had their own business, which is common in developing countries like Uganda. In the Centenary Bank Survey, in which gender differences were considered, it was more common among women to have a regular paid employment compared to men. In order to understand their level of income better, I should also have raised the question whether they were working full time or part time.

Education level was also similar in both surveys. Approximately four fifths had a University degree and the majority of these had a bachelor degree. Since regular income is a prerequisite for obtaining a long-term mortgage loan, those who answered that they were regularly employed, have been screened in most questions in both surveys.

In the Centenary Bank Survey the question about income level was not included in the questionnaire, as I considered it to be a too sensitive question, as respondents were applying for a loan at the time of the survey. Instead, the level of the salary was investigated by asking a loan officer at Centenary Bank who answered that incomes normally were around UGX 1.000.000.

In the Jomayi Survey the question about their monthly income level was included in the questionnaire. The most frequent answer among regularly employed respondents (one third) was a salary over UGX 2 000 000, followed by a quite even distribution between UGX 500 000 to UGX 2.000.000. According to the Uganda National Household Survey from 2009/2010 the average monthly income in urban areas, for those having a secondary/post-secondary education, was UGX 1 350 300 (Uganda Bureau of Statistics (2014b)). Thus the average salary level in the Centenary Bank Survey was equal and in the Jomayi Survey it was much higher than the average income, among people with a secondary/post education in Ugandan urban areas.

The latest Uganda National Household Survey from 2012/2013 does not classify salary according to education, but only in relation to location (Uganda Bureau of Statistics (2014c)). According to this latest Household Survey, respondents in the Jomayi Survey belonged to the highest income group, *i.e.* those 24 per cent of the Kampala population that earns more than UGX 1 000 000. Respondents in the Centenary Bank Survey belong to the second largest income group (24 per cent of the population), earning between UGX 500 000 – 1 000 000.

Another indicator supporting the salary difference between the two surveys is that respondents in the Jomayi Survey, who had taken a bank loan, took it from banks targeting high income customers, such as Housing Finance Bank, Barclays, Stanbic Bank, and Standard Chartered Bank, while only a few had taken a loan in Centenary Bank and other banks that target lower income customers.

Furthermore, most respondents in the Jomayi survey were employed by the private sector and also by international organisations. In the Centenary Bank Survey, a question about their employer was not included. However, according to the interview with a loan officer at Centenary Bank, most customers were working as civil servants. Work as a civil servant generally implies a lower salary than work in the private sector (Uganda Bureau of Statistics (2014b)). On the other hand, civil servants have a more secure employment and they also have better prospects of receiving a pension, which increase their possibility to pay back loan disbursements when retired.

Land as potential collateral
The potential demand for long-term mortgages was further analysed, by investigating whether respondents owned any formal registered land, which could be valid as collateral for a mortgage loan.

In the Centenary Bank Survey approximately three fifths of the regularly employed owned land before applying for a loan at Centenary Bank, at the time of the survey. Considering the whole sample, there was a higher land ownership rate among men compared to women. In the Jomayi Survey everybody owned land, which is natural since owning land and eventually a house, was a prerequisite for participating in the Jomayi Survey.

They were further asked whether they had a certificate of a land title, and what tenure their land had. In the Centenary Bank Survey the majority, three quarters, of those owning land had a land title, or was in the process of registering their land title. Their land fell under mailo or official mailo tenure. Approximately one fourth of those owning land had no land title, and all of them said they would like to have one registered in Land Ministry. The main reasons for why they had not registered their land were because it was too complicated and expensive and some also answered that they had Kibanja land ownership and therefore could not get a registered land title.

In the Jomayi Survey almost everybody had a registered land title under mailo tenure, which is obvious since respondents in the Jomayi Survey lived in an area developed by Jomayi Property Consultants, who have sold registered land under mailo tenure in this area. The very few that did not have a formal land title already lived in the area before Jomayi Consultants developed it. To use land as security for a long-term loan the land should be situated in an urban area. In the Centenary Bank Survey they were therefore asked in which area their land was situated. All answered that the land they owned was in an urban area, most of them in the surroundings of Kampala. In the Jomayi Survey it was obvious that all owned land in an urban area.

In sum, the potential demand for long-term mortgages seemed to be higher in the Jomayi Survey than in the Centenary Bank Survey, since they had a higher salary and it was also more common in the Jomayi Survey to own formal land ownership under mailo tenure in a well-planned area. However, it is likely that many respondents in the Centenary Bank Survey also would qualify for a long-term mortgage, since they also had a University degree and a regular income, except those who answered that their income was too low and those who were squatters.

10.2.2 Actual demand for bank loans

Actual demand for long-term mortgages was investigated in the Centenary Bank Survey and Jomayi Survey. In the Jomayi Survey, actual demand for other types of bank loans as well as why some respondents didn't take any loans at all, was also investigated.

Financial sources used for acquiring land and housing: In order to investigate the actual demand for different types of loans, respondents were first asked about how they had acquired their land and house. In both surveys, the most common sources of funding for buying land and constructing incrementally, were savings followed by bank loans.

Savings were used by approximately four fifths of respondents in the Centenary Bank Survey and almost by everybody in the Jomayi Survey. Loans and micro-finance loans were used by about one fifth of respondents in the Centenary Bank Survey. One has to consider that all respondents in the Centenary Bank Survey were applying for a micro-finance loan in Centenary Bank at the time of the survey, so their answers referred to how they had funded the land and house before the time of the survey. The difference between a bank loan and a micro-finance loan may not be clear. However, generally micro-finance refers to smaller loans, although the size of microloans differs between banks, targeting different income segments. In the Jomayi Survey almost two thirds of the regularly employed answered that they had taken bank loans, while no one answered that they used micro-finance loans. In both surveys, few had borrowed from moneylenders, family and friends, community groups or had inherited the land and/or house. The fact that very few had borrowed from informal sources stands in contrast to the average Ugandan, who mostly borrows from informal sources, such as family (FinScope (2013)). This could be explained with the fact that a large sum is needed for acquiring land and constructing a house, which can be difficult for friends to offer, especially on a long time basis.

Actual demand for long-term mortgages

In the Centenary Bank Survey respondents were asked if they had applied for a long-term mortgage loan or planned to do so within the next three years. Very few (1/20 of regularly employed) answered that they had applied or planned to apply for a long-term mortgage loan, two fifths answered that they didn't know if they would apply for a long-term mortgage loan and approximately half of respondents answered that they had not applied nor planned to apply for a long-term mortgage loan within three years.

In the Jomayi Survey respondents were asked if they had taken a long-term mortgage loan, for buying land and/or for constructing the house. Approximately two thirds of respondents, who were regularly employed had taken some kind of bank loan. Among them, approximately one fourth had taken a long-term mortgage loan. Considering that a very small percentage of the Ugandan population qualifies for a long-term mortgage loan, this high percentage in the Jomayi Survey is relatively unexpected.

Reasons for not taking a long-term mortgage loan

The reasons behind the relatively low actual demand, compared to the potential demand for long-term mortgage loans, will in this section be analysed in order to understand whether the actual demand is low, primarily because they are rationed from this type of credits, or if there are other reasons behind the low demand.

To do that respondents in the Centenary Bank Survey, who answered that they had not taken any, nor planned to apply for a long-term mortgage loan within the next three years, were further asked to explain the reasons why. In the Jomayi Survey respondents who had not taken a long-term mortgage loan, were also asked to give their explanations.

There was a clear pattern of answers in both surveys, although they differed in order between the surveys. The main reasons were: "it is too complicated", "my income is too low" and "I am afraid of losing land title if I cannot pay back in time". These reasons and the order in each survey shall be discussed further below. These reasons thus show that those answering that they have too low income are rationed from the long-term mortgage market while the other reasons reflect that they are self-excluded.

The main reason for not applying for a long-term mortgage loan: In the Centenary Bank Survey, the main reason for not applying for a long-term mortgage loan was that it was too complicated, which approximately two thirds of regularly employed answered. In the Jomayi Survey, the main reason for not applying for a long-term mortgage loan, was the fear of losing the land title in case they couldn't pay back the loan on time. Approximately two fifths of the regularly employed gave this answer. The difference in answers between the surveys might be related to the fact that respondents in the Centenary Bank Survey were at the time of the survey applying for a loan in Centenary Bank, which is more flexible in their requirements when screening borrowers and enforcing loan contracts, compared to the banks offering long-term mortgages. Therefore there was less fear of losing the land title among respondents in the Centenary Bank Survey.

Furthermore, a long-term mortgage loan requires a formal land title as collateral. All respondents in the Centenary Bank Survey who owned land, but did not have a formal land title, said they would had like to have a one on their land. The main reason to why they had not registered the land was the cumbersome and expensive process to register it, as previously described when analysing the potential demand. Centenary Bank considers non verifiable income to some extent and accept land that is not registered as collateral, although the interest rate becomes higher. Registering land and getting a mortgage are bureaucratic processes, for which the customer often has to hire a lawyer.

In the Jomayi Survey, on the other hand, respondents already had a formal land title. Their fear of losing the land title in case of default, is caused by the rule that the bank can take over and sell the property if the borrower fails to pay on a long-term mortgage loan for more than 90 days.

The second largest reason for not applying for a long-term mortgage loan: In the Centenary Bank Survey, the second largest reason for why they had not taken and not planned to apply for a long-term mortgage loan, was that their income was too low. The fact that they answered that their income was too low reflects that they did not qualify for a long-term loan, *i.e.* they were rationed and not self-excluded from the long-term mortgage market. When looking at the personal characteristics of those answering that their income was too low, it was found that basically all of them were regularly employed and most of them had a S6 level or bachelor degree, *i.e.* they had a lower education level than the majority of respondents in the Centenary Bank Survey. Furthermore, one fifth of them were not approved for the loan they were applying for at the time of the Centenary Bank Survey, which may be due to their low income.

In the Jomayi Survey, the second largest reason for why they had not applied for a long-term mortgage loan, was the answer alternative *other reason*. Those who answered *other reason* were further asked to explain what they meant by that. Their answers were: “banks are not so flexible”, “tried but was rejected” and that they “had an account in Centenary Bank”. Some of the answers were thus related to the answer option “too complicated”, already included as an alternative in the questionnaire.

The difference in answers between the two surveys, might be explained by the fact that respondents in the Centenary Bank Survey had a lower salary than the ones in the Jomayi Survey. Also, the fact that respondents in the Jomayi Survey gave answers related to a too complicated procedure, as their second main reason for not applying for a long-term mortgage loan, is also consistent with respondents in the Centenary Bank Survey, who cited “too complicated” as their main reason.

The third largest reason for not applying for a long-term mortgage loan: The third largest reason in the Centenary Bank Survey to why they had not taken or planned to apply for a long term mortgage loan, within a three year period, was fear of losing their land. This answer was given by approximately one fourth of the respondents who were regularly employed. Their third main reason is thus the same as the main reason in the Jomayi Survey.

In the Jomayi Survey, the third largest reason for why they had not applied for a long-term mortgage loan when they bought their land and/or constructed their house, was the two answers options; that “interest rates were too high” and they “did not want to take a big loan”. One fifth of the regularly employed cited those two answer options. The answer that interest rates were too high, may be correlated to the fact that they did not want to be indebted for a long time with a high interest rate, which is a typical feature of loans in Uganda. This is also in line with the fact that most long-term mortgages are repaid within 7-10 years, instead of within 20 years.

The answer that they didn’t want a big loan (with a high interest rate) may be correlated to the previous answer options, concerning the risk of losing their land in case they couldn’t pay back. And the answer that interest rates were too high, are in line with the Finscope’s survey on access to finance in Uganda, that showed that the major barrier to borrowing from formal and semi-formal institutions is that of high interest rates (FinScope (2013)).

Answer options not cited as main reasons for not applying for a long-term mortgage: In both the Centenary Bank Survey and Jomayi Survey, only a few cited the remaining answer options, *i.e.* that they lacked acceptable land as security, that they were afraid of corruption in Land Ministry and/or that they had bad credit history.

Actual demand for short-term mortgages and other types of loans

In both the Centenary Bank Survey and Jomayi Survey respondents had taken bank loans when they were buying land and/or constructing their house. As only a few of them had taken or planned to apply for a long-term mortgage loan, they were consequently taking short-term loans instead. They were therefore asked further questions about what kind of short-term loan/s they had used. The fact that the Centenary Bank Survey was conducted at the time that respondents were applying for a short-term loan in the Centenary Bank, it is obvious that all of them wanted to take a short-term loan, since the Centenary Bank did not offer any other kind of loan. In the Jomayi Survey, approximately two thirds of respondents regularly employed, had taken any kind of bank loan. Among those that had a bank loan, one third had a long-term mortgage loan, while the rest had taken a short-term bank loan.

Use of land as security: The use of land as security differed between the surveys. In the Centenary Bank Survey most respondents used their land as security for the loan they applied for at the time of the survey. Approximately three quarters of those using land as security were regularly employed. The use of land as security was almost equally common among those who owned land before they applied for a loan at the time of the survey, as for those that were going to buy land for the loan they applied for at the time of the Centenary Bank Survey. In the Jomayi Survey, on the other hand, approximately half of respondents that were regularly employed, had used their land as security. The difference in answers between the Centenary Bank Survey and Jomayi Survey, considering the use of land as security, may be explained with differences in the foreclosure process at Centenary Bank, compared to banks offering long-term mortgage loans. Even if formal land is secured in the Land Ministry in the same way in the Centenary Bank as for a long-term mortgage loan, it is not common that a debtor in Centenary lose their land if they can't pay the loan on time. The Centenary Bank is known for doing anything to get the borrower to repay the loan, like giving the borrower more time. Therefore the more common use of land as security in the Centenary Bank Survey can be related to the lower risk when using land as security for this bank, and may not reflect the persons perception about using land as security for a long-term mortgage loan.

Which bank gave the loan?: Respondents in the Jomayi Survey were also asked in what bank they had taken their short-term loan. The reasons for this question was to get some idea about what type of loans they had applied for, and the choice of bank also indicated their income class. Their answers suggest that they had taken short-term loans from the banks that offer long-term mortgages, *i.e.* banks targeting the high income population. The fact that they had applied for short-term loans and did not use their land as security suggests that they had taken a salary loan, since they had a regular well paid employment. Salary loans offered by commercial banks classified under Tier 1, see Chapter 5.4, are available for those who have a regular verifiable salary. The higher the salary, the higher the loan amount, and the longer is the duration of the loan. The popularity of salary loans in Uganda is supported by recent statistics from Bank of Uganda showing that a substantial part of loans to the household sector are salary loans. In fact, salary loans have contributed to the increase in the household sector loans and are therefore the largest sector that banks target in their lending (Bank of Uganda (2014b)).

Reasons for not taking any loan at all
In the Jomayi Survey those, approximately half of respondents, who did not take any kind of bank loan at all for investment in their land and/or housing, were asked about the reasons for this.

There was a clear pattern in the answers to that question, namely: i) they never considered taking a bank loan (half of the answers), ii) the interest rate was too high (one third), and iii) they were afraid of losing their title if they could not pay back on time (one third). Some also answered that they were scared of banks (one fifth), which is correlated to the fear of losing the land, and some (one fifth) answered *other reason.* The few who gave another reason further explained why with explanations such as; it was too complicated to apply for a loan, they did not want the pressure from the banks, they preferred to use earnings from their own business, they got a loan from their family living abroad, they had taken a loan from their employer and got money from the members of the church.

Few answered the remaining answer options; that they had no security to use for a loan, their income was too low, that they did not know how to apply for a loan, afraid of losing their land title in Land Ministry and that they had no interest in building a house or buying land. The fact that the largest reason was that they never considered taking a bank loan, could be related to the explanation that they didn't need any loan.

The reasons why they did not take any loans at all are thus similar to those that took a loan, but did neither take a long-term mortgage loan nor a short-term loan secured on their land. By looking at personal characteristics of those answering that they did not take any loan, most of them were self-employed, *i.e.* a much higher rate of self-employed people, compared to the average in the Jomayi Survey. Being self-employed may also be an explanation to why they did not consider applying for any bank loans. Although they had land that was valid as collateral and a sufficiently high income, it is possible that the income was irregular and/or not formal, at least some part of it, and that meant a higher risk of not being able to pay back the loan.

10.2.3 Incremental building

In order to get a deeper understanding of the incremental building process, a number of questions were raised.

Frequency of applying for short-term loans: In the Centenary Bank Survey respondents were asked about the frequency of applications for the same kind of loans in Centenary Bank. Approximately half of respondents answered that it was the first time they applied for that kind of loan in Centenary Bank, while most of the remaining responders said they had applied either one or 2-4 times before.

What was the loans used for?: When asked about what the loan/s they had taken was/were used for, there was a clear pattern in both the Centenary Bank Survey and the Jomayi Survey, which was that the main purpose of taking a loan was to buy land.

In the Jomayi Survey, almost three quarters of the regularly employed people that had taken a loan, did it to buy land. In the Centenary Bank Survey the main purpose for taking a loan was to buy land, approximately one third of respondents, both for those taking a loan for the first time, as well as those who had taken a loan before. The lower frequency of applications for land in the Centenary Bank Survey, may be correlated to the fact that two thirds of respondents owned land before they applied for the loan at the time of my survey.

In both surveys it is clear that those with a regular job used a bank loan to a larger extent than the rest of the sample. It was a clear pattern of what the loans were used for: i) first they bought land, ii) secondly they constructed a shell house and iii) finally they took a loan for finishing the house. The interviews with loan officers in Centenary bank and with one of the larger banks targeting the high income group, confirm that most short-term loans were used for investment in housing, foremost to buy land.

Moreover, they were asked whether they had bought their land from a private person or a land developer. As mentioned before most respondents in the Jomayi Survey that took a loan, had taken it from the banks offering long-term mortgages and very few had taken a loan in Centenary Bank. This in spite of the fact that respondents in the Jomayi Survey had bought their land from the real estate developer Jomayi Property Consultants, that collaborated with Centenary Bank. Furthermore, in the Centenary Bank Survey approximately half of respondents, who had owned land bought their land from a private person, and not from a land developer, such as Jomayi Property Consultants. This shows that the loan product offered by Centenary Bank for facilitating the purchase of formal land did not match the preferences among these clients. The result is also consistent with the fact that the Centenary Bank no longer collaborates with Jomayi Property Consultants in order to facilitate the purchase of land for bank customers. Instead Centenary Bank has introduced a short-term mortgage loan, where the bank has a contract with surveyors who help customers with the regularisation of land.

In the Centenary Bank Survey, gender differences were considered. Women were going to use the loan to buy land to a higher degree than men. One explanation may be that over 60 percent of the women applied for a loan for the first time at the time of the survey, compared to 40 percent for men. Interviews with a loan officer and the managing director of Centenary Bank, support the result from the Centenary Bank Survey that women more often take loans to buy land. The result that women were buying land to a larger extent is somewhat surprising and may reflect that women's ownership of land is rising, since land normally have been owned by men. Only seven percent of women in Uganda owned land in 2005 (International Monetary Fund (2005)). However, according to the latest Ugandan Household Survey from 2012/13 women have a higher ownership of land than men, corresponding to 60 and 40 per cent respectively (Uganda Bureau of Statistics (2014c)).

Time required and frequency of use of loans to build incrementally: Respondents were also asked how long they estimated it would take (Centenary Bank Survey) or took (Jomayi Survey) to finish the construction of the house up to a standard that made it possible to move into the house. In the Centenary Bank Survey most answers ranged from less than one year to up to three years, while in the Jomayi Survey most respondents estimated it would take/it took them up to four years to construct the house before they could live in it, and thereafter they would continue building. However, one has to consider that it might be difficult for respondents in the Centenary Bank Survey to estimate how long time it would take to finish their house, since they were still building, in contrast to respondents in the Jomayi Survey, who already lived in their houses. Also the answers in the Centenary Bank Survey don't take into consideration how long it would take to complete the construction.

Share of housing costs covered by loans: In both surveys they were asked how much of the total cost of the house they estimated would be/had been covered by loans. In the Centenary Bank Survey, the answers among the regularly employed suggest that most, approximately two fifths, would like short-term loans to cover either 30-50 per cent or 10-30 per cent of the total cost of their houses. The respondents in the Jomayi Survey, who had finished building, had difficulties in estimating how much of the total cost was covered by loans.

Advantages and disadvantages with building incrementally: Respondents in the Jomayi Survey were asked about the advantages and disadvantages of building incrementally instead of buying a finished house. Cited advantages of building themselves incrementally, were that it is cheaper and that they could chose the design they wanted and they do not have the pressure to pay back a mortgage loan. Disadvantages were that it is time consuming, since builders often are not skilled or honest, so the house owner has to supervise and monitor them all the time in order to get the right construction and also there is the fear that building material is stolen. Another disadvantage was that they often had to re-build as there was no long term plan.

10.2.4 Housing as a source of income

The income level was also analysed, by asking questions related to whether the housing was a source of income or not. In the Centenary Bank Survey they were asked whether they rented out house/s and/or rooms and in the Jomayi Survey they were asked whether they rented out rooms. Approximately one fifth of respondents in the Centenary Bank Survey was letting out a house and/or a room, while very few respondents in the Jomayi Survey were letting out rooms. Those in the Centenary Bank Survey, who were letting out a house and/or rooms further said that the number of rooms and houses had increased since two years before the

Survey, especially the number of rooms. All of them also said that they would be able to charge a higher rent, if they improved the conditions of the rooms/house they were letting out. In the Jomayi Survey very few planned to rent out more rooms. The fact that respondents in the Centenary Bank Survey were letting out houses and rooms to a larger extent than the people in the Jomayi Survey, might be explained by the lower salaries among those respondents, compared to those in the Jomayi Survey. The results indicate that renting out a house/room can be an essential income contribution for middle income people, but not to the same extent for people with high incomes.

10.3 The Slum Survey and the Bukasa Survey

10.3.1 Potential demand for bank loans

Potential demand for housing credits in the Slum Survey and Bukasa Survey, were investigated by asking questions related to whether respondents fulfilled the requirements for obtaining a micro-loan, especially a micro-loan secured on formal or informal land ownership. The questions were thus related to their level of formal and/or informal income. In case they owned the land I was mainly interested in knowing if they owned the land, what land tenure they had and whether they had land that was registered in Land Ministry.

Screening requirements

Capacity to pay back the loan and make down payments
To understand what kind of loan respondents eventually would qualify for a number of questions related to different requirements were raised. I was interested in knowing if they were formally or informally employed. They were therefore asked whether they were self-employed or contracted. In the Slum Survey, half of respondents were contracted by someone, compared to one third in the Bukasa Survey. In the Bukasa Survey, on the other hand, most respondents were self-employed, approximately three fifths, compared to one third of respondents in the Slum Survey. It might had been better to ask about the regularity of getting paid, in order to capture whether they were formally or informally employed. However, it is likely that they were informally employed since very few of the Ugandan population was, and is, working in the formal sector.

In both surveys respondents were asked directly about their monthly income. There were large differences in the monthly salaries in both surveys but the pattern of answers differed between the surveys. The salary was higher in the Slum Survey than in the Bukasa Survey. In the Slum Survey salaries ranged from less than UGX 200 000 up to UGX 2 000 000 per month, while most answers ranged from less than UGX 200 000 to 6 000 000. In the Bukasa Survey salaries were spread between UGX 30 000 to 2 500 000, while most earned around UGX 30 000-500 000.

These results indicate that the salaries in the surveys were below the national average in urban areas, when compared with those who do not have a secondary education. According to the National Household Survey, this group has a monthly salary of UGX 450 000. The income is low, even when compared with those who do not have any formal education, which according to the same survey had a monthly salary of UGX 265 000 (Uganda Bureau of Statistics (2014b)). However, I did not ask about education in my surveys carried out in the informal settlements. The wide range of salaries is reflected in the variety of occupations. In the Slum Survey, most answered that they were business men/women and teachers, while the rest of the answers shifted from doctors and hairdressers to butchers. In the Bukasa Survey, most answered that they were farmers and drivers, while the rest of the answers were 25 different occupations, for example, shop keepers, teachers, peasants and herders.

Land as potential collateral

The potential demand for credit was further analysed by asking whether they owned land that was valid as collateral. In both surveys, approximately four fifths of respondents owned land. In the Slum Survey, there was a slightly higher ratio of those answering who had a formal land title, compared to the Bukasa Survey, where it almost reached three quarters and three fifths respectively.

In the Slum Survey, those who owned land were also asked about the land tenure on their land. Three quarters answered that their land fell under leasehold or mailo land tenure and approximately one tenth answered that they had family land. In the Bukasa survey, those owning land were asked if their land belonged to the family. Almost half of respondents answered affirmatively, that the land belonged to the family. However, by cross checking answers about landownership in the Bukasa Survey, the answers were not consistent. I should have included the answer option "I don’t know" in this survey. An explanation to why the answers in the Bukasa Survey were not coherent may be that those that had answered that they did not own the land also answered that the family owned the land. This interpretation is supported by the observation that three fifths of those who answered that the family owned the land, further answered that the family had a formal land title. An interpretation might be that when the family owned the land, respondents considered themselves as the real owners, *i.e.* felt more secure in the land ownership. Another explanation may be that they had not sufficient knowledge about land ownership, or did not understand the question. Therefore, I should also have included the answer option “I don’t know”, since it is possible that they did not know the right answer.

Those who did not have a formal land title were further asked about their willingness to formalize their land, *i.e.* registering the land in the Land Ministry. In the Slum Survey, almost all and around two thirds in the Bukasa Survey, answered that they would like to formalize their land. They were further asked about reasons why they had not done that so far. There was a clear pattern in the answers, mainly the explanations were that it was too complicated and expensive, and some also answered that they feared corruption in land ministry or that they did not know. Few chose the remaining answers options, like being afraid of being evicted or that they did not see any advantages of having a formal land title, in spite of the fact that some respondents probably were squatters. In the Bukasa Survey a few answered that they feared corruption in Land Ministry and that they did not know. In the Bukasa Survey, those who had family land were less willing to formalise the land, compared to the rest of the sample, two fifths and half of respondents respectively. Their answers thereby differ from results from other researches, suggesting that people without formal land in informal settlements may not have an interest in formalizing their land, due to that they do not fear being evicted (Serageldin et al. (2000)). The potential demand for micro-loans seemed to be higher in the Slum Survey because their salaries were higher and they owned land to a higher extent than in the Bukasa Survey. However, this summary on the potential demand is uncertain considering that it is difficult to estimate their income and whether it was formal or not one

10.3.2 Actual demand for bank loans

In the Slum Survey and Bukasa Survey, the actual demand for bank credits were analysed, with an emphasis on micro-loans secured and not secured on land.

Financial sources used for acquiring land and housing: In the Slum Survey and Bukasa Survey, there were some differences and similarities, concerning how they had acquired their land and house. In both surveys savings were the most common source of funding, except for acquiring land in the Bukasa Survey.

In the Slum Survey, loans from banks/micro-finance organisation were the second largest source of finance, although it was used to a much lesser extent than savings. The third most common source of funding was inheritance. The remaining options, namely; credit from community group, credit from friends/family and credit from moneylenders were cited only by a few in the Slum Survey. In the Bukasa Survey, on the other hand, inheritance was the second most common way of acquiring land and housing. Inheritance was more than twice as common as savings as source for acquiring land. The remaining answer options; credit from bank, credit from community group and credit from family members were cited only by a few.

The larger use of loans in the Slum Survey, compared to the Bukasa Survey may be explained by the higher income level and also higher level of land ownership in the Slum Survey. Furthermore, the higher incidence of inheritance in the Bukasa Survey may be explained by that few other options were available, given their low income. The results stand in contrast to the average Ugandan citizen, who takes the major part of their loans from the family, according to the Finscope survey on financial access in Uganda (FinScope (2013)). One explanation mentioned earlier is that for acquiring land and a house, a larger amount of money is required, which friends and relatives may not be able to provide in groups with low incomes.

Reasons for not taking any loan at all in the Slum Survey and Bukasa Survey Since relatively few had taken any kind of bank loans in any of the surveys carried out in the informal settlements, the reason behind the result was analysed through a number of questions.

The main reason given in the Slum Survey, was that interest rates were too high (two fifths of respondents), followed by the fact that they couldn't pay back immediately (one fifth of respondents). Few answered the remaining options, such as the amount being too small, they didn't know how to do, they were afraid of corruption in the credit organisation, they were afraid of losing the title, they were not accepted by the bank, and the loan was too expensive. However, it seems quite contradictory that most answered that interest rates were too high and few answered that it was too expensive. One explanation might be that there were so many answer options they answered the first relevant one. Of course, it is also possible that these two answers covered what they thought, and therefore they gave no more answers.

In the Bukasa Survey, they were asked about whether they planned to take a loan for buying and/or formalizing their land, and also whether they planned to take a loan for improving the house, add more rooms or buy a house. The answers to both questions followed the same pattern, namely the majority, three fifths, answered "no" while the rest answered "yes". Those answering "no" were further asked about the reasons behind it. The reasons were very similar to the Slum Survey and followed a clear pattern, namely that the interest rate was too high (corresponding to half of the answers), followed by the consequence that they couldn't pay back immediately (corresponding to one fifth of the answers). A few chose the remaining answer options. In the Bukasa Survey, there were no differences in the answers between those who had a family land and the rest of those who owned the land. Even though those who had a family land seemed to feel more secure in their land ownership, they were equally reluctant as the rest to take a loan, and the reasons behind were the same. Their answers reflected that they were referring to short-term micro-loans. The answers also confirm other researches, for example Serageldin et al. (2000), suggesting that micro-credits available on the market are not tailored for a situation with incremental building. This is due to the fact that housing requires a larger investment and people in the informal settlements aren't able to pay back the loan after a few weeks, as required by most micro-finance providers. The answers in my surveys also contradict Finscope's study on access to finance in Uganda in which the main barrier to borrow is the fear of the banks (FinScope (2013)).

10.3.3 Incremental building

In the Slum Survey, those who answered that they used savings were further asked how long it took to save the money before they could start building. The answers varied from less than one year up to seven years, with a peak on four years. They were also asked if they paid the land in instalments to the seller of the land. Approximately two fifths answered “yes”, while most respondents (half of respondents) answered “no” and one tenth answered that they did not buy their land.

When asked about how long it took to build their house, the answers in the Slum Survey ranged between one to six years, but most answered one to four years. In the Bukasa Survey, most answered that it took them one or two years, and the rest of the answers were spread up to five years.

10.3.4 Housing as a source of income

Respondents in both surveys were asked whether housing was a source of income. Approximately half of respondents in both surveys answered that they were letting out room/s. In the Slum Survey the number of rooms let out was higher than in the Bukasa Survey. In the Slum Survey most answered that they let out either two or four rooms, although there were answers with up to 12 rooms. In the Bukasa Survey, four rooms was the most frequent answer.

The rent charged per month and room differed much in both surveys. In the Slum Survey it ranged between UGX 10 000 – 350 000, but most were letting out a room for UGX 50 000 per month. In the Bukasa Survey the rent was in a range from UGX 10 000 – 60 000 per month and the pattern of answers was evenly distributed, although most answered said that they rented out for UGX 50 000 a month. Approximately one fifth of respondents in the Slum Survey, said that what they earned from letting out rooms was their main source of income. In both surveys all said they could get a higher rent, if they improved the conditions of the rooms.

Chapter 11

Conclusions, policy recommendations and future research

In the following chapter I will present the main conclusions in relation to the theories that were presented in Chapter 3. In the second section, Section 11.2, I will present policy recommendations, and finally, in the last section, Section 11.3, I will suggest a number of topics that need to be addressed in future research.

11.1 Conclusions

Financial repression theories

According to the theories of *financial repression*, a liberalisation of the financial sector should lead to an expansion of the formal financial sector. Thus it should become more efficient through increased competition and will consequently reduce the need for informal finance. Accordingly, Uganda, like many other Sub-Saharan African countries, undertook reforms during the 1980s and 1990s to deepen their financial sectors. They liberalised interest rates, phased out directed credit, moved to indirect monetary policy instruments, restructured and privatized banks and reinforced banking sector supervision.

The financial reforms have led to an increase in financial depth, which is mainly due to the rising deposit mobilisation. The Bank of Uganda has managed to improve the supervision of banks, which has contributed to a more stable financial system. Furthermore, inflation has been reduced substantially, which might have increased the confidence to save in banks. The increase in savings may, however, not only be a consequence of financial reforms. The economy has been growing rapidly, which might have contributed to the possibility to save. However, financial depth is still low, even compared to countries in Sub-Saharan Africa where it also is very low.

There has also been an increase in long-term savings, while the public sector's share of credit is low.

In spite of that fact, credit to the private sector has not increased to the same degree. In the 90s Uganda experienced a time with a very low intermediation banking system. During the 2000s the banks deposits base, that had been lent out to the private sector, increased significantly, which was in line with the development in the rest of the word.

Financial liberalisation aimed at increasing the efficiency in financial intermediation. The spread between lending and deposit rates and the size of excess reserves are indicators of efficiency in the banking system. The entry of new banks has led to increased competition in certain market segments, especially among medium-sized banks, which are targeting the low income population. The amount of non-performing loans has been decreasing substantially, which might be a result of increased confidence in the financial system and an improved risk management in commercial banks in Uganda. The improvements in the financial sector have made it one of the fastest growing sectors of the economy since the 1999/2000 and thus, most likely, contribute to the development of the economy since the 1990s.

However, there are still concerns. The interest spread in Uganda continues to be high and is among the highest in the world. The reasons behind the high interest spreads in Uganda are complex. High interest rates, averaging 20 per cent, are driven by high operating costs and information asymmetries, that limit competition and increase profitability.

Banks hold large amounts of excess reserves. High excess reserves is a typical feature of the financial systems in developing countries, which reflects the fact that banks rather keep their assets in treasury bills than lend them to borrowers. It can also be an effect of an illiquid inter-bank market and structural barriers to increase lending. When looking at assets in Ugandan banks, it was found that there has been a preference to hold government papers and money placed abroad, instead of lending them to the private sector.

Despite a decline in the public sector's share of total credit, commercial bank lending to the private sector has not increased as much as anticipated, which implies that the overall accessibility of formal credit remains lower than expected. Financial reforms have led to the fact that the agriculture sector has received less loans, while trade and construction as well as household sector loans have increased. The entrance of new, mainly local banks, in the Kampala region has raised the availability of financial services to customers not served by the larger banks.

Accessibility of larger loans continue to target mainly the few most creditworthy borrowers and most lending continue to be on short term, contrary to expectations. However, financial inclusion is low by regional standards.

Short-term loans, such as microfinance, have produced a growing appreciation of the empowerment dimension of finance, but it still has substantive limitations. Rapidly growing mobile money activity is contributing to an increase in financial access.

This suggests that there are structural barriers to an expansion of lending larger loans to new borrowers.

In sum, the development of the financial sector after financial liberalisation in Uganda, like other developing countries, do not fully support the theories of financial repression.

Institutional economics and the theory of imperfect information

In contrast to the advocates of financial repression theories, institutional economists emphasize the linkage between legal institutions and financial development. *The theory of imperfect information* by Hoff and Stiglitz (1990) suggests that financial intermediaries employ different methods when screening and enforcing loans due to asymmetries in information. Therefore, due to the lack of a functional, institutional environment providing information lenders employ different methods and the financial market remains segmented in spite of the financial sector liberalisation that aimed to decrease the role of informal finance.

In Kampala the techniques employed by lenders in different segments of the banking system are highly specialized for different types of loan contracts, in accordance with the paradigm of imperfect information. Lenders take measures to protect themselves against moral hazard, as well as a reduction of transaction costs. Formal, commercial banks, regulated under Tier 1, rely on collateral and/or formal income and formal mechanisms for screening and enforcing loans. The reliance on collateral for larger loans represents their only means of contract enforcement. Without collateral, commercial banks have no means to enforce contracts, and then it becomes highly risky to lend money.

Micro-finance institutions, regulated under Tier 2, 3 and 4, employ more flexible mechanisms that mainly rely on personal relations for screening and monitoring their clients. Informal micro-finance institutions, not regulated by the central bank under Tier 4, mainly target people with a small, often, irregular informal income. The lending requirements of informal micro-finance institutions typically exclude people who do not have an on-going business activity or some kind of employment, as well as some kind of collateral.

The smaller amounts that lower income people are offered make supervision of these small loans costly and the interest rates are higher than on the loans secured on formal income and collateral. On the other hand microfinance institutions can often bypass this problem by using specialised techniques and thereby reduce costs for serving ordinary clients. It is, however, difficult to classify all the differences in methods applied by financial intermediaries as done in the framework of imperfect information. Both commercial banks and micro-finance institutions use interest rates and the maturity of loans as indirect mechanisms of screening and monitoring customers.

Intermediation of housing loans

Growing urbanisation should have created a strong demand for long-term mortgage loans in urban areas like Kampala and as housing has become one of the primary growth sectors in Uganda. However, only the highest income group (approximately two per cent of the population) qualifies for a long-term mortgage loan. Imperfect information, a particularly severe problem in Uganda, increases the issue of moral hazard and thus the risk faced by the banks.

First, a certain degree of macroeconomic stability is required to create a long-term confidence in the banking sector. The principal requirement for a commercial bank to provide a large housing loan is a high verifiable regular income of the borrower. The scarce information available on borrowers is a constraint for financial intermediaries. The authorities have taken measurements to address information asymmetries through, for example, improvements in the credit bureau and greater provision of financial services data, strengthening risk management, financial literacy and financial innovation. Despite the efforts to create a credit reference bureau and ID-card system, their coverage is still limited. Furthermore, the mortgage bill requires that bank customers have a spousal consent before they mortgage a matrimonial property. This is in order to protect the rest of the family from losing the property in case of, for example, divorce, death or an unpaid debt. However, the lack of civil registry and also the fact that it is legal to have several spouses, makes it difficult to apply the law. The lack of competition may also discourage the larger banks from seeking new markets.

Another constraint is the lack of a long-term funding among banks which limits the outreach of long-term loans. Most deposits are on short term although long-term deposits have increased after financial reforms, as described above. Pension funds could form an important source of funds for housing. However, the use of risk free government paper is an attractive choice for pension funds. Mortgage providers are also seeking funding from international agencies like International Finance Corporation, African Development Bank and the Netherlands Development Finance Company. There is a rising interest among these providers to equip the housing finance market with funding.

Land as collateral

Next, access to a long-term mortgage loans requires that the borrower use urban land with a clear land title as security. One of the most famous advocates of land-titling projects in developing countries is the Peruvian economist Hernando de Soto. He argues that one explanation to why capital markets fail to reach out to the larger population is that the majority do not own formally titled property. The lack of formal titling prevents the use of property as collateral, and hence prevents the capital embedded in these assets from being unlocked. Hernando de Soto's vision for developing countries is to elaborate proper legal frameworks, which recognise the assets of the informal economy, and create a system, which protects and provides value to the property of the poor so they can access capital from formal financial institutions (de Soto (2000)). Institutional economists are of a similar opinion as de Soto about the role of policies, that define and enforce property rights in a development effort (North (1990)).

Institutional economics typically refer to *private* property rights as a key for development and emphasize the importance of secure property rights, i.e. well defined and enforceable rights, that makes it possible for the bank to claim the asset in case of default and hereby reduce the risk for moral hazard. Although informal property rights can be secure, institutional economists have stressed the importance of the state in codifying and protecting such rights.

Theory suggests that insecure property rights make people reluctant to invest in their property, in order to maintain or increase its value. Long-term investments are risky because because there is a risk of losing the property. Institutional economics typically refer to *private* property rights as a key for development since private property rights enable the owner to legally exclude others from using the asset and incentivize individuals to carry out productive activities, such as investments that maintain or increase its value.

The improvement in tenure security , which is a consequence of improved property rights, should therefore have a positive effect on investment in housing. This effect could be particularly evident in an urban context, where land is more scarce than in a rural context.

My analysis on the constraints for banks to provide long-term mortgages in Kampala fit well with these theories. In Uganda there are a number of formal requirements the applicant has to provide and to register a mortgage is a bureaucratic process, that normally has to be carried out by a lawyer. In spite of that, the land reform has been high on the development agenda for Uganda since the early 1990s, the land title system is comprehensive and there is comparatively little scope for dispute on the validity of titles even though cases are pending in court for several years. Tenure insecurity is fundamentally a consequence of inadequate land administration and of a legal framework, incapable of determining boundaries and settling disputes.

Unreliable land registries, together with uncertainties in land titles, arising from non-owner occupiers of land, high costs and lengthy transactions associated with land registry searches and registration of mortgages. The increasing demand for mortgages encourages the banks to try to speed up the land registration process. Due to the rising land and housing prices, the Bank of Uganda has introduced property prices indexes, with the aim of avoiding a price bubble.

The surveys on the demand for formal land ownership in this research project thus support de Soto's theory about the cumbersome and expensive land administration as a major constraint for formalizing land, especially among the low income households. It also supports previous research, which shows that speedier enforcement of contracts is associated with deeper credit markets, for example (Detragiache, Enrica and Gupta, Poonam and Tressel, Thierry (2005)).

Furthermore, land under Customary tenure has been introduced in the mortgage bill. However, banks are reluctant to give mortgage loans to people who own land under Customary tenure. As the community protects the person that is about to loose the land to the bank, it is difficult for the bank to sell that land, since no one in the same community would be interested in buying the property. In the Slum Survey and Bukasa Survey, that were carried out in informal settlements, the respondents didn't fear being evicted, although they did not have a formal land ownership. In other words, there was a demand for formal land ownership, even though there was no sense of insecurity among the owners. However, those in the Bukasa Survey who owned land that belonged to the family, appeared less willing to formalise their ownership, which suggests that they felt that they had tenure security and that the formal land ownership was no incentive to use land as collateral, for a bank loan in the future.

The main argument of Hernando de Soto, however, that land titles lead to increased access to credit, has lead to mixed opinions in my surveys on the actual demand for housing loans. The results from the Centenary Bank Survey and Jomayi Survey suggest that it is not obvious that those who have a formal land title have used or want to use land as a security for a loan. In the Centenary Bank Survey and the Jomayi Survey most respondents had a formal land title on their land, as well as a formal regular income and a university degree. They were thus likely to fulfil the requirements for obtaining a long-term mortgage, especially in the Jomayi Survey where their answers on their income level suggest that they belonged to the highest earning segment in Uganda.

In spite of that, the actual demand for a long-term mortgage loan was low in both surveys. In the Centenary Bank Survey only few had taken or planned to apply for a long-term mortgage loan. In the Jomayi Survey approximately half of the respondents had taken any type of bank loan, and among them one third had taken a long-term mortgage loan.

The low actual demand for long-term mortgages was in both the Centenary Bank Survey and Jomayi Survey due to three main reasons, namely that they feared losing their land and/or house in case they couldn't pay back the loan on time, that it was too complicated to apply for long-term mortgages and finally they couldn't afford it. In the Jomayi Survey the main reason why they had not applied for a long-term mortgage was the fear of losing their land title in case of default. That shows that they most probably would qualify for a long-term mortgage loan, i.e. they were not rationed, rather self excluded from taking a long-term mortgage loan. In the Centenary Bank Survey, on the other hand, they seemed to be excluded from the long-term mortgage market to a larger extent since the main reason for not applying for a long-term mortgage was that their income was too low.

Foreclosure

The reason why respondents in the Centenary Bank Survey applied for a loan at the Centenary Bank can be explained by the foreclosure process in the Centenary Bank, which is different from other commercial banks, regulated under Tier 1. The bank does all that is possible to readjust the loan, in case the borrowers have difficulties in paying back the loan. Therefore the use of land is not a main barrier from taking a mortgage loan in Centenary Bank.

When failing to pay back a mortgage loan from a formal commercial bank, the customer has 90 days before the bank start foreclosing the loan, which implies that the land and house are sold to the public, often at a lower price than the market price.

That there still is a reluctance to use land as a collateral is also supported by the observation that those who had received a bank loan for investment, in land and housing in the Centenary Bank Survey and Jomayi Survey, were mainly people with a regular formal income and could therefore access a so-called salary loan that is not secured on land. That supports previous research suggesting that countries with insufficient legal protection of creditor rights and (information asymmetries) do not have credit markets that deepen. It also supports previous researches, for example Woodruff (2001) that argues against de Soto, saying that access to loans is dependent on cash flow and savings rather than land as collateral.

Self-employed people, on the other hand, would have to secure their loan on their property. Those without any loan at all, in the Jomayi Survey, were mainly self-employed. The main reason why they had not applied for a bank loan was the fear of loosing their land, in case they could not fulfil the repayments of the loan on time.

The reason for using land as security for a short-term loan was by respondents in the Jomayi Survey explained by the fact that they did not have any other option to get a loan. This supports de Soto's theory that land ownership increases access to bank loans, even though most respondents did not want to use land as security. This result is also in accordance with personal interviews with borrowers at Centenary Bank. Also recent research Erman (2012) on the effects of land titling and use of credits in one of the poorest areas in Peru, suggests that land titling initially led to an increase in use of credit secured on land but later this effect disappeared when the borrower had shown that she or he could pay back the loan and had built a personal relationship with the bank. Hence, it became easier to obtain more loans that not necessarily needed to be secured on the property. However, to obtain a larger loan from a formal bank there is always the need to use land as security, even though the borrower has a regular income and can show a good track record.

This suggests that even though it would be a smoother process to apply for a long-term mortgage loan, especially if they would have had a higher salary it would still be a low demand for such loan, due to the risk of losing the land title, in case they can't pay back the loan on time, i.e. a high default rate. This might, on a more basic level, be seen as a reflection of uncertainty in future incomes.

Short-term versus long-term loans

Researcher have also argued that short-term finance has a stronger disciplinary role, overcoming moral hazard and agency problems in lending, since a short-term debt needs to be negotiated frequently (Rey, Patrick and Stiglitz, Joseph E. (1993)), (Ranguram (1992)), (Diamond and Rajan (2001)). The duration of financing thus reflects the risk-sharing between providers and users of finance. It has been argued that long-term finance shifts risk to the providers, because then they will be directly affected by the changing conditions in financial markets.

My results show that customers in the Centenary Bank Survey and Jomayi Survey preferred short-term loans, because they considered it less risky than a loan with longer duration that is secured on land. For them the risk is not primarily related to whether they use a long or short-term loan. Instead, the risk is associated with whether they use land as security or not. Respondents in the Centenary Bank Survey preferred to take several short-term loans in Centenary Bank, equivalent to the amount they could get from taking a larger long-term mortgage loan at a lower interest rate. This result is also supported by the outcome of Finscope's latest survey on access to finance in Uganda that suggests that fear of debts among real and potential bank borrowers is the main reason for not taking any type of loans (FinScope (2013)). The risk for imprisonment is also ranked high as a barrier in the same Finscope Survey. The reason for the popularity of the Centenary Bank and the different methods used when selecting borrowers and enforcing loans might be explained by its history and the dominance of catholic ownership of the bank.

Credit constrained or not

The unwillingness to take a bank loan, and in particular use land as security, could also reflect that they had other options to borrow money, or that they did not need to borrow. In the Centenary Bank Survey and Jomayi Survey the most common source of funding for acquiring land and to build incrementally was savings. In the Centenary Bank Survey it is obvious that they also used a bank loan for investment in land and/or housing, since they were applying for a loan at the time of the Survey, at least those who were approved for the loan. And as mentioned above, approximately half of the respondents in the Jomayi Survey had taken some type of loan. In the Slum Survey and Bukasa Survey savings were also the main source of funding to acquire their house. The same goes for funding to acquire land in the Slum Survey. In the Bukasa Survey, on the other hand, inheritance was the most common way of acquiring land. The explanation may be that the participants in the Bukasa Survey had a lower income than those in the Slum Survey and it was therefore more difficult to save the money that was needed to buy land.

The higher income level in the Slum Survey may explain the more frequent use of micro-loans for investment in land and housing, compared to the Bukasa Survey where loans were only used by a few. In the Slum Survey and Bukasa Survey the respondents were not considering to take any bank loan.

The first reason for the low demand was that the interest rates were too high. This might reflect that most of the respondents couldn't afford a loan, i.e. they were likely to be denied from taking any types of bank loans. The second reason was that they couldn't start repaying the loan as quickly as required. This might reflect that they referred to micro-loans and hence could use other types of collateral than formal land ownership. On the other hand, that they to some extent feared the corruption in land ministry supports previous research that vulnerable groups are most affected by corruption. Unlike the Centenary Bank Survey and the Jomayi Survey, the respondents in the Slum Survey and Bukasa Survey did not fear taking loans due to the risk of losing their security.

When looking at the results from all four surveys on actual demand of loans for investment in land and housing, one might conclude that households with titled land are more likely to use credit to invest in land and housing. On the other hand, those with a land title have a higher income level. And as discussed above, they do not necessarily use the land as collateral. Additionally, in all surveys it was rare to borrow from money lenders, community groups, friends and relatives, which can be explained by the large lump sum of money that is required especially for investment in land, but also for building incrementally. As mentioned before, the only group that mainly acquired their land through inheritance were the people in the Bukasa Survey with the lowest income level.

The lack of sufficient savings for larger investments concurs with the the fact that the most common purpose of taking a loan was for buying land. Interestingly, in the Centenary Bank Survey where gender differences were considered, women used bank loans to buy land to a larger extent than men. This finding is also supported by officials at Centenary Bank. This result is particularly interesting since land traditionally have been owned by men.

In the Jomayi Survey they were asked about advantages and disadvantages with building incrementally. The advantages were that they didn't want the pressure from the banks and could choose their own design. Disadvantages were that it was time consuming to supervise builders and they often had to rebuild due to lack of a building plan.

The fact that there was a low demand for credit could also be related to that respondents had a low marginal product of investment in housing. When asked about whether housing can be a source of income the answers show that the lower the income level the more common it was to use housing as a source of income, mainly by renting out rooms. Practically everybody who rented out rooms said they could charge a higher rent if they improved the conditions of the rooms. In the Bukasa Survey it was also shown that the number of rooms let out had increased since two years before the survey. That shows that housing could be considered as a source of income among financial providers. It also shows that there is a demand for better housing in informal settlements and that there are potential tenants that can afford it, which may be explained with that the lack of housing leads to that not only the poorest live in informal settlements.

The result that housing often can be a source of income among lower-income households is striking considering that most microfinance providers consider housing as a durable product, and not business.

Interest rate as a screening mechanism due to asymmetric information

According to the asymmetric information model by Stiglitz and Weiss (1981), high interests attract borrowers that are more likely to default. Interest rates are not raised to the extent that markets clear, i.e. demand meets supply, which suggest that banks fear lending at market clearing rates because they perceive high interest rates to attract more risky borrowers. But this model is not in line with the results of my surveys on the demand side, targeting the middle class.

In both the Centenary Bank Survey and the Jomayi Survey, those who had a formal land title and regular job with a sufficient income, preferred to pay a higher interest rate for one or several unsecured loans instead of using their land as security for a larger, cheaper, long-term mortgage loan. As discussed earlier, the reason for not using their land as security is the risk of losing the land, in case they fail to pay back the loan disbursements on time. This was even clearer for those in the Jomayi Survey with a higher salary and valid land titles, as they would probably be able to get a long-term mortgage loan and become low-risk borrowers. This finding is also supported by personal interviews with managers at Centenary Bank, as well as a previous research, which suggest that Centenary Bank has not lost clients to competitors, due to high interest rates (Interview with manager and loan officers at Centenary Bank), (Nakayiza (2013)).

Interviews with banks offering long-term mortgage loans suggested that the default rate on long-term mortgages was rather high, which explain the respondents fear of losing their collateral in case they can't pay back on time. The mortgage act requires that banks advertise in the newspaper that they have estates for sale. These kind of advertisements are quite common in Uganda, which might raise the fear among potential borrowers.

The fact that the default rate on short-term loans in Centenary Bank is very low, or non-existent, is explained by the fact that the bank does everything to make it possible for the borrower to pay back the loan, even when the loan contract has to be prolonged. Also risks of defaults on salary loans are low, since the employer or an insurance help to make sure that the loan gets repaid. However, I did not measure the default rate in my analysis. It would be difficult to compare the default rate on long-term mortgages with other types of loans since, they have other enforcement mechanisms.

The results from my surveys are confirmed by the Bank of Uganda Lending Survey from June 2013, which reports that approximately 50 per cent of the banks reported lower interest margins and tightening of credit standards, especially to the real estate and trade sector. The key factors cited for the tightening of standards were a low credit turnover, low demand, reduction in real estate market valuations, high default rate and slow resumption of operations at the land offices. Additionally, the prospects for banks were to ease credit standards in 2014 with a focus on short-term loans rather than long-term loans (Bank of Uganda (2013a)). In 2014 unsecured loans constituted a significant share of household loans, and had the fastest increase of credits (Bank of Uganda (2014b)).

On the other hand, the surveys carried out in the informal settlements show that high interest rates exclude people from taking bank loans. In fact, high interest rates were one of two main reasons for not taking a bank loan. This result is also supported by other researches that show that high interest rates are excluding the lower income population from the credit market (Karlan and Zinman (2009), (Besley and Ghatak (2010)), (Bauchet et al. (2011)), and also that micro-finance loans are not adapted to the incremental building among the poor (Serageldin et al. (2000)).

Collateral and credit rationing

Stiglitz and Weiss briefly consider the use of collateral in their credit rationing models. They conclude that an increase in collateral requirements, just like an increase in the interest rate, potentially leads to a decrease in the lender's expected return on loans because of the resulting adverse incentive and selection effects. They suggest that an increase in collateral has two effects on the market for loans: those individuals who remain in the market will choose to undertake less risky projects and those individuals who drop out of the market are less wealthy, low risk borrowers. My results are not in line with their reasoning since the results from the Centenary Bank Survey and Jomayi Survey suggest that those who didn't want a long-term mortgage loan, although they most probably qualified for such a loan, were mainly wealthy, low-risk borrowers that could afford to pay a higher interest rate instead of using their land as security.

11.2 Policy Recommendations

The lack of possibilities to acquire land and housing shows that respondents in the surveys were credit constrained. Improved access to credit could therefore have a positive effect on the urban population, especially the middle class and low income population. The dearth of financing for residential housing loans arises from many factors. Such financing is more risky, and therefore, if banks can earn adequate returns by lending to governments and larger established firms, they will have little incentive to embark on more risky loans. Therefore to stimulate such lending, in addition to the improvements in credit information and credit recovery, discussed before, it is also necessary that the government do not pre-empt the use of loanable funds, and that they make sure that adequate competition is maintained in the banking system.

The role of the government should primarily include providing of necessary legal and regulatory framework, together with the provision of the infrastructure and utilities, which house-builders require.

From the empirical findings, it is evident that the issue of land is of vital concern for the development of housing finance in Uganda. To remove the current delays at the Land Registry which are inhibiting the market are important. This requires qualified staff and better management within the present structure.

A faster process of registering land improves the depth of information, which creates synergies by lowering transaction costs, and also promotes competition and encourages more people to register their land, which in turn should increase access and encourage more people to start taking loans. Additionally, when more land is used as collateral there is less need for land valuations.

The different rights associated with each type of land affect the possibility for using the land as collateral. In this sense, the government should focus on facilitating a clearer regulatory framework for land tenure. The land tenure system, given the tradition of collectively held land under Customary tenure, is likely to provide an obstacle to mortgage credit.

The housing policy must regulate and accelerate the construction of housing. Continuous communication with the private sector is important for the government, in order to define realistic long-term policy goals, as well as shorter term actions which include private sector participation. Risk-sharing collaborations can provide incentives to private institutions to expand their portfolios.

One implication of the discussion above is perhaps that the policies should focus on the underlying factors related to the land tenure, land registration and macroeconomic stability and not directly on expanding long-term mortgages. This may also improve the competition between lenders and thus make loans more affordable. In a situation where the economy fluctuated and future incomes are uncertain, it is very important not to lose the land/house that you own, and using long-term mortgages secured on land may not be rational for the household. Instead, loans should be adapted to the incremental building process.

11.3 Future research

A number of research gaps were identified in this thesis. More studies with larger a sample are needed to confirm and complement the results, such as:

- Collection and analysis of more and better quality micro level data, on the impact of secure property rights on households use of different types of loans in Kampala. These studies could be compared to other urban areas of Uganda and also other countries in Africa and other developing countries.
- More studies should be undertaken to test the theories used, considering for example linkages between property rights and use of bank loans as well as contract enforcement. Both on different micro levels and different international contexts.
- A careful analysis should be undertaken of what problems in housing finance development can be addressed through financial sector reforms and what problems rather have to be solved through non-financial sector approaches, such as infrastructure and planning improvements.

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