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Financing of Affordable Housing in Uganda - An Analysis of the Mortgage Refinancing Institutions Bill, 2025

JRK Knowledge series
May 2025

Introduction

While access to housing is a fundamental human right, two thirds of the Ugandan population have limited access to housing which is largely contributed by the growing population at 3% annually with an estimated population increase to 71.4 million by 2040.

According to the 2022 report by Centre for affordable housing finance in Africa, 48.3% of Ugandans live in slums. Additionally, there is an estimated housing deficit of 2.4 million housing units and this gap is estimated to grow at a rate of 300,000 per year.

While financial institutions have supported Ugandans to build or acquire housing through offering mortgages, most of the low-income earners have been excluded from accessing such mortgages because of the stringent requirements such as the need to provide collateral and the high interest rates.

Additionally, financial institutions limit long-term mortgage lending because of the mismatch of the short-term deposits and long-term mortgages. Some of the Ugandans who qualify for the long-term lending find themselves in an unsatisfactory situation of having to improve their houses incrementally based on the build as you earn basis which is characterized by inefficiencies and deferrals.

Other factors that have contributed to limited access to affordable housing include lack of comprehensive land use planning and management controls especially in urban areas, economic value of the land, its availability and ownership tenure.

In Uganda, the provision of housing is largely done by private developers and individuals who set up small units for rent. From the Government perspective, this is through Government led programs such as the National Housing and Construction Company, the ministry of internal affairs housing project and the Special Force Command Engineering unit.

Despite the above efforts, only 60,000 units are built annually contrary on the 200,000 units that are needed to reduce the housing gap.

The National Development Plan III – 2021/2022 – 2024/2025

To address the increasing housing deficit, the Government of Uganda set out under the National Development Plan III to reduce the housing deficit. One of the goals set under the sustainable urbanization and housing program was to reduce the acute housing deficit by 20%. To realize this goal several concept strategies where highlighted including the establishment of high-density affordable housing through either private investments or Public Private Partnerships, implementation of an investment plan for adequate housing and affordable housing, incentivize real estate companies to undertake affordable housing projects and establish the Uganda Mortgage Refinancing Company (UMRC). While some of the above strategies are still work in progress, this article focuses on the concept strategy of the establishment of UMRC. To achieve this strategy, the Ministry of Finance, Planning & Economic Development drafted the Mortgage Refinancing Institutions Bill, 2025 which was tabled before Parliament for the first reading on 14 March 2025. This bill establishes the Mortgage Refinancing Institutions which will be regulated by Bank of Uganda.

Their objective is to provide long-term funding to primary mortgage lenders through financing or pre financing mortgage portfolios for at least five years. The purpose is to enable primary lenders to offer mortgages to the public at more affordable interest rates, manageable payment installments, long term payment durations and provide a grace period for borrowers before repayment of the loans.

Factors to consider for effective financing of affordable housing.

While the enactment of of the above bill into law has the potential of addressing the prevalent challenges of high interest rate on mortgages and ultimately contribute to the achievement of sustainable and affordable housing for all, the following factors need to be considered to ensure that the Mortgage Refinancing Institutions effectively achieve their objectives.

1. Establishment of a sustainable funding model for the Mortgage refinancing institutions.

While such institutions are yet to be established, according to the bill, the Government of Uganda or its agency can hold shares in such an entity. This provides the possibility of a Public-Private Partnership (PPP) similar to the Kenya Mortgage Refinancing Company. While adopting the PPP arrangement may be a good approach to raise the initially required minimum capital, maintaining the same capital and liquidity requirements will require a sustainable funding model to ensure continuity and effectiveness of the Mortgage refinancing institutions to realize their objectives. One of the core businesses of a mortgage refinancing institution as per the bill is issuance of bonds. While this may be an avenue to raise long term financing, the corporate bond market in Uganda is still relatively underdeveloped constituting only 0.2% of the assets under management by fund managers as per the Capital Market Quarterly bulletin ended 30 June 2024. This means that such institutions may have to explore issuing corporate bonds on international capital markets to secure long-term funding. To further mitigate the liquidity risk, the Government should periodically inject money in such institutions to ensure their sustainability and continuity.

2. Setting mortgage limits and fixed interest rates by the primary lenders.

To address the affordable housing deficit, the primary lenders need to rely on objective criteria to determine the mortgage limit for affordable housing. While Uganda Bureau of Statistics publishes the construction input price index report monthly, highlighting the changes in the costs of inputs such as materials, labor and equipment used in construction project. Such information may not easily be interpreted or accessible by a layman to guide their decision making on the mortgage product. To ensure effective implementation of the Mortgage refinancing institutions, such information should be written in simpler means and availed to customers to enable them make informed decisions regarding the mortgage product. Additionally such simplified information can also be beneficial to investors, property developers and other Ugandan who may be interested in investing in affordable housing in Uganda.

The next aspect that needs to be established is the fixed interest rates at which the mortgages are going to be issued to the final consumer by the primary lenders.

The bill doesn't provide guidance on the fixed interest rate at which the Mortgage Refinancing Institutions will be issuing the loans to the primary lenders neither does it indicate the range within which the primary lender should charge in terms of interest on the mortgage to the final customer. Considering the above, additional information needs to be provided by Bank of Uganda in form of guidelines on the criteria to arriving at the mortgage limits for the affordable housing mortgages and the corresponding fixed interest rates.

Determining the criteria threshold for the Mortgage product for both the primary lenders and the final customers.

While the Bill defines a primary lender to include financial institutions, Islamic financial Institutions, microfinance institutions and registered societies among others, once in force there is need for the Mortgage refinancing institutions to develop a criteria for the affordable housing mortgage product for both the primary lenders and the final customers. Such criteria should incorporate environmental and social policies in evaluating the loans for financing or prefinancing. This will ensure that the housing construction is not only affordable but also sustainable.

Additionally, there is a need to develop criteria for the targeted final consumer of the mortgage product to ensure that it is inclusive. With over 80% Ugandan population being employed in the informal sector, it is critical to establish a comprehensive checklist to establish the ability of potential clients to repay the mortgages. Since the informal sector is often characterized by irregular income and undocumented transactions, the Mortgage refinancing institution can implement a risk sharing facility to derisk the low-income earners to achieve broader social impact. Such initiatives will reduce the default mortgage rates while ensuring an inclusive mortgage lending.

Conclusion

While the Mortgage refinancing Institutions bill, 2025 has the potential once passed into law to offer a solution to the current housing deficit through providing finances for affordable housing ,factors such as establishing a sustainable funding model for the mortgage refinancing institutions, defining the mortgage limits and the fixed rates and establishing the criteria to be met by both the primary lenders and final consumers for the mortgage product should be considered to ensure effective implementation of such institutions. This will also support the realization of the ultimate objective of the Mortgage refinancing institutions of facilitating the financing of affordable housing in Uganda. At JRK Advisory we understand the critical need of affordable housing in Uganda and through our real estate advisory function we provide legal tax and financial advisory services to investors, real estate developers, financial institutions and landlords on the risks, challenges and opportunities in the real estate sector to support their business objectives to contribute to the affordable housing development in Uganda.

Contact for the publication

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Prior to establishing JRK Advisory Limited, Eva served as the Global Structuring Manager at MBO Partners in the United States. She also gained valuable experience as a Legal and Tax Consultant at KPMG Uganda and shared her expertise as a tutor at Uganda Christian University's School of Law.

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