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ENHANCING ACCESS TO FINANCIAL HOUSING PRODUCTS FOR THE UGANDAN HEALTH SECTOR

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ENHANCING ACCESS TO FINANCIAL HOUSING PRODUCTS FOR THE UGANDAN HEALTH SECTOR

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Acronyms and Abbreviations

CBA	Central Business Area
CD4	Cluster of Differentiation 4
DCA	Development Credit Authority
HIPS	Health Initiatives for Private Sector
KIIs	Key Informant Interviews
LTV	Loan to Value Ratio
NHCCL	National Housing and Construction Company Ltd
UGX	Uganda Shillings
USAID	United States Agency for International Development
US $	United States Dollar

Executive Summary

The USAID/Uganda Private Health Support Program (2013–2018), builds on the success of the USAID Health Initiatives for Private Sector (HIPS) Project (2007–2013). The Program aims to strengthen, organize and mobilize the private health sector by providing technical expertise to improve service delivery, enhance quality standards, improve access to financing and provide leadership in the private sector.

Presently, the USAID/Uganda Private Health Support Program supports two banks (Centenary Bank and EcoBank), through credit guarantees and technical assistance to enhance access to credit among private health providers and health workers, particularly in the underserved rural areas.

The project is exploring the possibility of launching another credit guarantee to a financial institution to address constraints private health facilities and health workers encounter while accessing credit, mortgages and/or other housing finance products. This study was commissioned to assess demand, feasibility, and propose terms and conditions of developing a guarantee—or other financial interventions—to facilitate access to finance for this target group.

Study Findings and Recommendations

1. Private Health Facilities Finance Requirements and Recommendations

The study established that private health facilities have a range of plans to expand their operations that require additional funding. Ninety percent of the facilities interviewed had short-term financial needs to broaden their range of services, build extensions onto existing facilities, and acquire new equipment (e.g., ultrasound scanners, x-rays). Fifty percent had larger financial requirements, including physically expanding in-patient capacity. Most facility managers noted that new funds were urgently needed to address these financial expansion plans due to the growing demand for high quality healthcare by Uganda's growing middle class.

The capacity of private health facilities to finance these investments is constrained by weak balance sheets (low profit margins), lack of credit history, limited funds to provide as down-payments (for mortgages), and insignificant sources of collateral. The USAID Development Credit Authority (DCA), with Centenary Bank and EcoBank, is addressing these needs; however, the demand seems to far outstrip the availability of loans using these guarantees. More still needs to be done to find measures to assist health facilities to address the constraints of limited collateral, down-payment options, and credit history and enable them to physically expand and diversify their operations.

Our recommendations to expand access to financing for health facilities includes:

- *Accounts receivable loans*: This type of loan could offer health facilities the upfront cash needed to meet their investment plans, based on a forecast of forthcoming/upcoming payments from patients. To access the loan, health facilities would need to maintain proper records of payments (current and anticipated), and/or audited accounts.
- *Equipment loans:* More flexible, longer-term loans are needed to assist health facilities to purchase new or used equipment to offer a more diversified range of healthcare offerings. An equipment loan is a collateral-based loan because the equipment, once purchased, is used as the collateral.

- *Savings for down payments:* Banks need to structure new types of savings mechanisms to enable healthcare facility owners to save towards mortgage down payments. Savings could be used as collateral towards a mortgage or as a down payment, expanding opportunities for healthcare facilities to gain access to much needed larger and longer-term loans to expand existing facilities and/or build new facilities. Banks are also encouraged to lower down payment requirements from the current 30% to 5% for the health sector and offer more flexible terms to expand accessibility of equipment loans to health facilities.

Using Equipment as Collateral

Many banks take only immovable property as loan collateral. These conditions need to become more flexible to include movable properties such as an x-ray machine or an ambulance. Such a strategy would expand the availability of much needed capital to private health facilities.

2. Housing Finance Needs of Health Workers and Recommendations

Very few private health workers (less than 5 percent) rely on mortgage financing to purchase their homes. They are deterred by banks' down payment requirements (at least 30% of the property value), high interest rates (between 17 and 30 percent), and strict collateral requirements. As a result, few health workers are able to afford mortgages to buy or build new homes.

Given that the majority of private health workers cannot meet bank conditions to take out a mortgage, many end up building their houses incrementally. These houses are built using relatively small, short-term (about 5-year) loans from either commercial banks or micro-finance institutions coupled with family savings.[1] The demand for mortgages by health care workers far exceeds the availability of affordable mortgages offered by Uganda's banking sector.

There are two tiers of health workers in Uganda: the 2% that earn between UGX 1 million (US $ 400) and UGX 2 million (US $ 800) a month and those who earn less than this amount, which make up the remaining 98%. Recommendations regarding how to work with these two segments include:

- *Tier One (higher paid health workers):* Commercial banks, supported by a credit guarantee, should design new loan products that offer more flexible conditions along with longer loan terms. Mini-mortgages with terms between 7 to 12 years, more flexible interest rate conditions, and a down payment of 5% are needed to purchase modestly priced houses of between UGX 34 million (US $ 14,000) and UGX 42 million (US $ 16,800).
- *Tier Two (moderately paid health workers):* Commercial banks need to develop more flexible savings programs to assist health workers save towards required down payments. One option to address this need is for health workers to establish housing cooperatives and use these as vehicles to mobilize savings. The cooperatives can open bank accounts where members' savings will be deposited on a monthly basis. Through the housing cooperatives, banks could offer cooperative members zero interest loans to use as mortgage down payments to build their houses.

[1] Most of the homes built by the young and the growing modest and lower-middle class, who constitute about 35 percent of the labor force, have been built this way.

The study recommends that USAID provide new credit guarantees to two new banks (Stanbic and Equity Banks) to enhance access to credit and housing finance among private health providers and health workers using some of the following conditions.

- *Reduced Collateral Requirements and Lengthening Loan Term:* Using the credit guarantees, supported banks should relax collateral requirements (from 100% to 25% coverage) and/or lengthen the loan term (for example, from 5 to 7 years) to enhance access to formal credit for the target group.
- *Interest rates:* Drawing on a credit guarantee reduces the risk to the bank of clients defaulting on their loans; as such, we recommend banks offer interests rates at least 5% below their normal commercial rates when drawing on a guarantee (such as the USAID DCA).
- *Loan Types:* Loans should be targeted to private healthcare facilities or their workers to enable the expansion and/or building of facilities or housing. Health facility loans for equipment should also be considered.

1.0 Background and Context

In Uganda, the private health sector and business community contribute significantly to national health goals. Private health centers and workplace clinics provide essential health services to over 50% of the population. The USAID/Uganda Private Health Support Program seeks to enhance the availability and quality of these services.

The USAID/Uganda Private Health Support Program (2013–2018), builds on the success of the USAID Health Initiatives for Private Sector (HIPS) Project (2007–2013). The objectives of the USAID/Uganda Private Health Support Program are to:

> Broaden access to services provided by private health providers;

> Increase affordability of services and products provided by private health facilities; and

> Improve the quality of services provided by private health facilities.

The Program aims to strengthen, organize and mobilize the private health sector by providing technical expertise to improve service delivery, enhance quality standards, improve access to financing and provide leadership in the private sector

Presently, the USAID/Uganda Private Health Support Program supports two banks (Centenary Bank and Ecobank) through credit guarantees and technical assistance to enhance access to credit to private health providers, particularly in the under-served rural areas.

One of the needs identified by the Program and confirmed by the initial results from lending supported by credit guarantees, is a strong demand for housing at health facilities and among health workers.

However, the specific housing needs of private health providers and health workers are not well understood, nor are their financing needs. The USAID/Uganda Private Health Support Program plans to provide another credit guarantee to a financial institution to, among others, address the constraints private health providers and health workers encounter while accessing mortgages or other housing finance products. A major constraint to accessing mortgage finance and other housing finance products among private health providers and health workers is the lack of the initial down payment (which stands at 30% of the mortgage value). Therefore, down payment assistance should be seriously considered as part of the design of the proposed credit guarantee to be provided to another financial institution.

Against this background, the USAID/Uganda Private Health Support Program commissioned the services of a housing finance consultant to assess the feasibility and propose terms and conditions of providing another credit guarantee to a financial institution.

2.0 Scope of the Assignment

Banyan Global undertook this assignment during January – April 2014. Specific tasks of the assignment included:

- Designing and administering a limited survey to establish the housing and financial needs of private health providers and health workers, including their ability to repay loans;
- Analyzing key constraints on the part of the private health providers and health workers to access existing housing finance products, including their capacity to make a down payment for a mortgage;
- Assessing the terms and conditions of the current housing finance products from the point of view of the needs of the health sector borrowers;
- If a credit guarantee is needed, propose terms and conditions of a guarantee that could mitigate the risks and facilitate access to housing finance products;
- If warranted, propose additional solutions such as a down payment assistance scheme and other forms of assistance;
- Recommend at least two financial institutions that are interested in providing housing finance to the private health sector, justifying the selection of the recommended institutions.

3.0 Summary of Approach and Methodology Employed

The assessment was executed in three phases including mobilization and planning (phase 1 and 2) and the execution of the assignment (phase 3). Mobilization and planning included discussions with USAID and Private Health Support Project staff to garner a thorough understanding of the study's background and context. The assessment study techniques included (i) a comprehensive review of relevant materials/documents; (2) a survey of private health facilities and workers; and (iii) the conducting of key informant interviews. Section 3.1, below, presents the methodology used in conducting the survey among private health providers and health workers.

3.1 Survey of Private Health Providers and Health Workers

3.1.1 Sampling Design

Fifty private health facilities were sampled to participate in this study. These were taken from the latest (2013) database of private health units registered by the Uganda Medical Council. Only health facilities that offered both outpatient and inpatient services were selected, based on the assumption that these units would have already invested some capital to diversify their offerings and physically expand their facilities. As such, these larger clinics would more likely need access to capital to further expand.

Drawing from the selected list of healthcare facilities offering in- and out-patient services, a stratified random sample was taken, with stratifications based on Uganda's four main regions (Central, Western, Eastern, North). See figure 1, below. Within every region, health facilities in and around the main business district were purposefully selected. For example, in the Western Region, Mbarara District was selected.[2] For the purposes of this study, all districts, with the exception of Kampala, will be referred to as rural. Health facilities in rural areas were selected and surveyed by identifying clinics based along main roads in a regular alternating pattern, i.e., every fifth facility. In Kampala, this same technique was applied while selecting every tenth clinic.

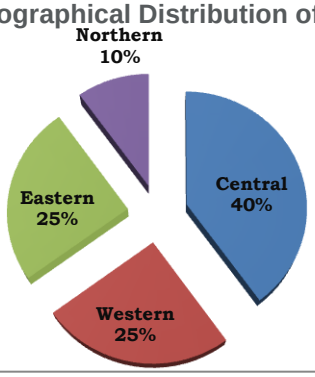
At each private health unit, at least three staff were interviewed: one from senior management (director), one qualified health worker (doctor, clinician and/or senior nursing officer) and one technical staff (nursing assistant and/or pharmacy attendant).

3.1.2 Characteristics of Health Clinics Surveyed

Importantly, nearly 70% of the clinics surveyed had a capital investment of UGX 50 million or less. Overall, 60% of the clinics had between 5 and 10 beds; 30% had between 10 and 20 beds; and the balance (10 percent) had between 30 and 50 beds.

Forty percent of the fifty private health units that were surveyed were from the Central Region (15% from Kampala and 25% from Mukono); 25% were from the Western Region (Mbarara); 25% were from the Eastern Region (Jinja); and

Figure 1: Geographical Distribution of Health Units



[2] Source: http://www.mbarara-town.com

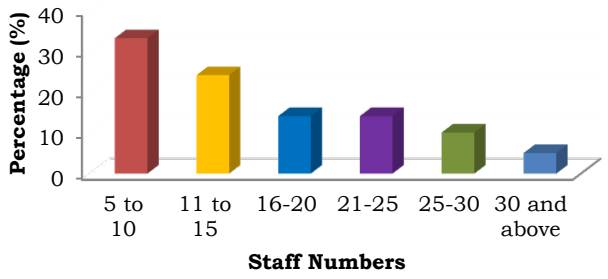
10% were from the Northern Region. (See Figure 1 for more details.)

The number of staff employed at the private health units ranged between 5 and 50. See Figure 2. The majority of the private health units (over 50 percent) that were surveyed had been in existence for less than 10 years.

4.0 Study Limitations

Knowledge of products offered by commercial banks, including mortgages, was limited among the private health providers and health workers who were surveyed. For example, 75% of the health workers interviewed had never heard of the term "mortgage finance." In some instances, the lack of knowledge limited the survey discussion on how to design and offer affordable financial products to private health providers and health workers.

Figure 2: Staff at Surveyed Health Facilities



5.0 Study Findings and Recommendations

The study findings and recommendations are presented in four main sections. Sections 5.1 through 5.2 present findings and recommendations on the private health facilities' investment plans and sections 5.3 through 5.5 present findings and recommendations on the housing finance needs of health workers.

5.1 Private Health Facilities' Investment/Business Plans

The survey established that the majority of private health facilities (over 90 percent) had some form of short, medium and/or long term investment/business plan. The sections below present findings on these plans.

5.1.1 The Short-term Investment Plans of Private Health Facilities

The survey established that all health facilities had short-term investment plans, covering a period of one to two years. About 80% of the proprietors of the clinics with a bed capacity of between 10 and 20 noted that they needed access to financing to more effectively compete with other health clinics by offering a higher quality and wider variety of healthcare services. Interest in new services included the provision of medical insurance, x-rays and sonograms.

The clinic proprietors also desired to modestly expand by adding extensions onto their facilities dedicated to the treatment of special diseases. For example, some clinics wanted to establish sickle cell units to treat and, if necessary, admit patients with acute sickle cell pain.

At some clinics, construction works were ongoing, expanding the physical structure upwards (additional floors added to the ground floor) rather than horizontally, because these clinics lacked adequate land. According to the proprietors of the clinics, expansion plans had been embarked upon as part of efforts to adequately meet the needs of the growing number of customers—estimated at between 50 and 100 daily at facilities with over 10 beds.

Interestingly, the survey established that the majority of those proprietors who had embarked on the expansion of their physical structures were using retained earnings. It is a common practice among clinics to use retained earnings as the major source of funds for capital investments and working capital requirements. The survey further established that clinic proprietors often use their own funds for expansion efforts due to the complications of accessing commercial loans.

Another common short-term investment was the acquisition of equipment that would enable the purchasing clinics to diagnose diseases faster and better. Notable examples included the purchases of ultrasound scanners, x-rays and CD4 machines. Of all the equipment required by the clinics, the ultrasound scanners were rated the most urgent. In clinics where an ultrasound scanner had been installed, the proprietors noted that they were able to make daily sales of about UGX 300,000 (US $ 120) from diagnosing different diseases.

Scenario of Purchasing an Ultrasound Scanner using a Commercial Loan: The cost of an ultrasound scanner depends on the brand and the type. A modestly priced scanner costs about US $ 20,000 (UGX 50 million), which is equivalent to about 50% of the annual retained earnings (profits) for the majority of clinics that were surveyed.

Over 90% of the clinics surveyed have annual sales (turnover) of about UGX 48 million (US $ 19,200), or UGX 4 million (US $ 1,600) monthly. From the annual sales, the health facilities make a margin of UGX 21.6 million (US 8,640) after paying rent, restocking drugs and paying employees' salaries.

Table 1: Typical Health Clinic Sales

Component	Amount – Monthly	Amount – Annually
Sales	UGX 4,000,000 (US $ 1,600)	UGX 48,000,000 (US $ 19,200)
Employees' Salaries (4 staff)	UGX 1,200,000 (US $ 480)	UGX 14,400,000 (US $ 5,760)
Rent	UGX 400,000 (US $ 160)	UGX 4,800,000 (US $ 1,920)
Restocking of drugs and reagents	UGX 600,000 (US $ 240)	UGX 7,200,000 (US $ 2,880)
Profit (margin)	UGX 1,800,000 (US $ 720)	UGX 21,600,000 (US $ 8,640)

Source: Interviews with proprietors of health facilities

At the current terms at which commercial banks offer loans (e.g., interest of between 16-30% and loan terms of 5 years) most clinics cannot afford loans of UGX 50 million to buy ultrasound scanners. To illustrate, if a loan of UGX 50 million was issued to a clinic at the above terms, the clinic would have to make monthly repayments of UGX 1.53 million (US 612) out of profits of UGX 1.8 million per month. A monthly repayment of UGX 1.53 would be equivalent to 85% of a clinic's monthly profits. However, commercial banks require that monthly repayments should not exceed 40% of a business's income. See Table 1 for more details. Box 1 provides a summary of how Centenary Bank is using its USAID and SIDA-funded guarantee to support the health sector.

Box 1: Current Use of the Centenary DCA

By the end of 2013, Centenary Bank had leveraged their DCA to issue 38 loans worth US $ 1.27 million. Of the 38 loans issued, 18 (47%)—worth US $ 344,000—were distributed to businesses located outside the Central Region. The majority of the loans were drawn for construction and expansion of health facilities, enabling proprietors of health facilities to leverage their existing collateral requirements and lengthen the loan terms from 3 to 5 years.

Source: Centenary Bank, 2014

Box 2: Upgrading to a Mini Hospital

One health clinic surveyed noted their desire to save up enough money to transform their facility into a mini-hospital (Health Centre IV). This mini-hospital would be fully equipped to offer primary, secondary and tertiary medical care. The inspiration to upgrade to a mini-hospital came through sustained demand from patients requesting services the clinic could not offer.

Source: Interviews

5.1.2 Medium and Long-term Investment/Business Plans of Private Health Facilities

All clinics surveyed offer general medical services[3] but expressed a strong desire to upgrade their clinics to Health Centre IV[4] status in the medium to the long term. The stated goal was to broaden the services they provide and enhance the quality and affordability of the medical services offered to

[3] General Medical Services include maternity services, ante-natal services, pediatric medical services (dealing with the medical care of infants, children, and adolescents, with an age limit usually ranging from birth to 18), geriatric medical services (a branch of medicine that focuses on the elderly—e.g. treating diseases like diabetics), and minor surgeries like skin and even deep tissue biopsies, abscess removal and foreign body removal from skin and tissues, among others.

[4] A Health Centre IV should have a minimum of 50 beds with separate wards for men, women, and children (see regulations set by the Ministry of Health and the Uganda Medical Council). A Health Centre IV should also be able to accommodate 50 percent of the staff it employs (see Ministry of Health Guidelines for designation, establishment and upgrading of health units, 2011).

the communities they serve. See Box 2.

The proprietors of the clinics further noted that if they were able to upgrade their clinics to Health Centre IV status, they would be able to handle emergencies (like obstetric care) which are normally performed at hospitals. Transitioning to Health Centre IV, however, is a capital intensive project, which would require more equipment, expanded space, and investment in staff training.

To embark on such an expensive project, the proprietors of the clinics noted that they will have to build savings in excess of UGX 500 million or US $ 200,000 to undertake such an endeavor. However, saving this amount would take many years as clinics average around UGX 1.8 million per month in profit (as shown in Table 1).

Box 3: Reasons for not accessing loans

- Accessing a loan is time consuming
- Banks charge high interest rates and no grace periods
- Health facilities have limited knowledge about how to apply for a loan
- Many banks employ harsh loan recovery methods, including confiscation of property
- Facility owners often lack acceptable collateral
- Banks are often not interested in lending to health facilities because of their perceived risk

Source: Interviews, 2014

One way to address this impasse is for proprietors to seek funding from a commercial bank. However, many banks have very strict lending conditions including significant collateral (often in excess of UGX 500 million or US $ 200,000)[5] and usually offer interest rates that make borrowing unattractive. See Box 3.

5.2 Recommendations for Private Health Facilities

From the above overview, it is evident that many private health facilities surveyed desire to enhance the quality of the services they provide and expand their facilities to meet the growing demand for affordable medical services within the communities they serve. However, clinic owners have been unable to advance these goals due to the expense and difficulty of acquiring commercial bank funding. One key challenge is typical bank requirements for collateral of up to 100% of the loan amount.

This study recommends that the loan schemes delineated below are designed and implemented to support Ugandan healthcare clinics to access financing to expand and renovate their facilities and/or acquire new equipment:

> **Accounts Receivable Financing Loan**: This type of loan provides working capital to a health clinic based on a forecast of forthcoming/upcoming payments from patients. This type of loan is well suited for private clinics that offer medical insurance and those that are in advanced stages of preparing to provide such a service. Clinics will have to pledge future income from payments to repay the loan through a formal agreement with the bank. To access the loan, clinics should maintain proper records of payments (current and anticipated) and/or audited accounts. These loans can be used to buy equipment, diversify operations, and renovate facilities.

In administering the above loan facility, it is proposed that the USAID/Uganda Private Health Support Program support the DCA banks to collect sufficient financial information about the

[5] Ninety-five percent of clinic owners noted their collateral was currently valued at between UGX 20 and 60 million.

health facilities (type of customers, the average fees patients pay for treatment, the demand for medical care at the health facility, and sales) to enable the bank to offer a factoring product.[6] It is further proposed that the USAID/Uganda Private Health Support Program train the clinic proprietors in basic accounting practices and how to maintain accounting records. The USAID/Uganda Private Health Support Program should also offer business management training to support the proper use of loans and their ultimate repayment.

> **Equipment Loan**: An equipment loan is a collateral-based loan because the equipment, once purchased, is used as the collateral. Equipment-based loans offer health clinics an opportunity to expand and diversify their service offerings to their existing clientele and attract new clients; over time, this will lead to increased profits and offer opportunities to physically expand a clinic's operations. In administering the above loan, it is proposed that the same terms as for the Accounts Receivable Financing Loan (discussed above) are applied.

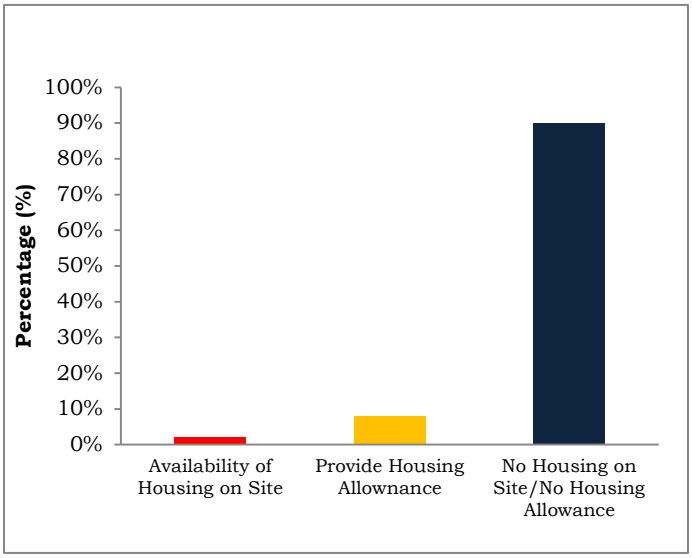
5.3 Housing Finance Needs of Health Workers

The findings from the survey established that less than 10% of the health facilities interviewed provide housing for their staff on site. Figure 3 below provides more details.

When housing is provided on site, it is in most cases for a senior nurse or mid-wife who is qualified to carry out infant deliveries, safeguard the well-being of mothers and babies, and provide high quality specialist outpatient, in-patient and emergency care services.

In other scenarios, private clinics only provide on-site housing for staff working on night duty. In most cases, the staff on night duty is a nurse. Though termed as housing, it is literally accommodation. There is no dedicated house for the nurse who works on the night shift; she is given a bed or cot, often within the reception area. Some health clinics provide housing to more senior staff as an allowance, i.e., part of a staff's monthly salaries.

Figure 3: Housing for Staff at Private Health Facilities



Ninety percent of health clinics, however, do not provide housing for their staff (either on site, and/or as a housing allowance). In interviews, clinic owners noted that they did not have the space or large enough profits to offer such an allowance to their staff.

The survey further established that at private health facilities where housing on site is not available, and/or a housing allowance is not offered, the proprietors of the facilities are concerned about high levels of staff turnover. The proprietors are also concerned about the safety of their staff, who work long hours and leave

[6] Banks which do not have adequate information about their borrowers have difficulty in assessing the risk and profitability of potential loans.

work late in the night. Many staff to walk long distances to and from their rented houses to the health facilities (see Box 4 for more details). The proprietors of the private health facilities, in most cases, are cognizant of such challenges and as a result often do not reprimand staff when they report late to work (or are absent).

Still, about 30% of the health clinic proprietors interviewed noted their interest in investing in housing for staff. These owners noted that housing on site and/or as an allowance is a key ingredient to the growth of their businesses. The proprietors further noted that because they do not offer housing allowances they are unable to attract highly trained full-time staff. At one health facility, it was noted that plans to recruit a full-time doctor had stalled because the facility could not meet his employment demands, which included a housing allowance. Our survey also identified sites that intend to build staff housing, such as the Makula Nursing Home, which owns a sizeable piece of land and intends to build a nursing school, a theater, and a three-storied housing block that will accommodate staff and teachers.

Box 4: Lack of on-site housing

Over 90 percent of private health clinic staff are female and live in rented houses. It is common for them to commit about 50 percent of their net salary towards rent, and in peri-urban centers their housing may be up to 5–10km from their places of work. Since public transport is generally unreliable in peri-urban centers, most staff walk to their places of work. Consequently, they often report late to the clinics—which, in turn, reduces efficiency and profits.

Source: Interviews, 2014

5.3.1 Capacity of Health Workers to Access Housing Finance

Although many health workers do desire housing, the survey established that effective demand[7] is actually very low. In essence, the majority (about 90 percent) of health workers' salaries are too low to finance their housing needs—approximately UGX 500,000 (US $ 200) and below. See Table 2 for more details.

Table 2: Monthly Salary and Savings of Health Workers

Position	Monthly Salary (UGX - Millions)	Amount Saved Monthly (UGX - Millions)	%
Director	About 2	About 0.4	0.4
Doctors	About 1.4	Between 0.2 and 0.3	1.2
Lab Technician	About 1.1	Between 0.2 and 0.3	3
Clinical Officer	About 0.6	Between 0.2 and 0.3	8
Senior Nursing Officer	About 0.6	Between 0.15 and 0.2	11
Senior Nursing Officer (Midwife)	About 0.5	Between 0.15 and 0.2	12
Nursing Officer	0.4	About 0.15	15
Enrolled Nurse	0.3	About 0.1	50
Pharmacy Attendant	0.2	About 0.05	
Nursing Assistant	0.1	Less than 0.02	

Source: Survey Results

[7] Effective demand constitutes what households are able to pay for housing. Effective demand is based on several factors, including: (i) the household income, (ii) the price of a house, and (iii) financing arrangements (including the interest rate and loan term).

In addition to the health workers' monthly salaries being low, the majority (over 60 percent) of a worker's salary is spent on food, rent, transport and school fees. Table 3 below presents the typical monthly expenditure of a doctor or clinic director.

Table 3: Typical Monthly Expenditures

Housing Unit	Single room/ Tenement housing	Semi-detached self-contained unit	Flat/apartment
Monthly Rent	84,000	220,000	350,000
Food	68,000	125,000	180,000
Transport and communication	61,000	97,000	127,000
Health and medical care	23,000	39,000	123,000
Personal goods	21,000	72,000	100,000
Utilities	30,000	57,000	120,000
Fuel (charcoal and firewood)	39,000	85,000	100,000
School fees	82,000	330,000	500,000
Total	408,000	1,025,000	1,600,000

Source: Survey Findings

In view of the above and the current terms at which commercial banks offer mortgage financing (see Table 4 below), it is clear that the income and savings of the majority of private health workers falls below a level where they could secure mortgages in the formal financial market. Mortgage lenders generally require a high down payment (between 20 and 30% of the total value of the property) to reduce credit risk and keep monthly payments affordable. Other terms include an interest rate of between 16 and 30 percent and terms between 5 and 20 years. Banks also do not want payments to be more than 40% of a household's monthly income.

At the terms presented in Table 4, only private health workers who earn above UGX 1 million monthly (US $ 400), are positioned to access a modestly priced mortgage from the above commercial banks. This implies that less than 2% of Uganda's private health workers can access mortgage finance at existing terms and conditions.

Table 4: Mortgage Terms

Lender	Housing Finance Products Offered	Underwriting Terms	Loan Amount (UGX, Millions)	Interest Rates per Annum (%)	Current Mortgage Book (UGX Billions)	No. of Housing Finance Loans
Stanbic Bank	› House purchase loans › House construction loans › Home improvement loans › Home completion loans › Equity releases	› Both salaried income and income from other businesses (income from other businesses should be banked) › Six months' bank statements › Pay slips from three consecutive months › Loan repayment should not exceed 40% of the total of salaried income and income from other businesses › Loan tenure of up to 20 years › Value of loan to property is between 70% and 80% › Collateral is the property and land title › Proof of employment › Approved bills of quantities and building plan for house construction loan.	From 30 to 2000	Between 16 and 19	Above 40	About 900
Centenary Bank	Mortgages only for incremental home improvements	› Both formal (salaried) and informal incomes are considered › Six months' bank statements › Pay slips from three consecutive months › Collateral is the land title › Loan repayment should not exceed 40% to 60% of borrower's surplus income › Loan tenure of up to 3 years. › Value of loan to property is 85%	From 5 to 30	22	About 60	About 20,000
Equity Bank	Housing microfinance loans for incremental home improvement	› Both formal and informal incomes are considered › Six months' bank statements › Pay slips from three consecutive months › Collateral is a land title › Loan repayment should not exceed 50 to 60% of borrower's surplus income › Value of loan to property is 80% › Loan tenure of up to 2 years	Up to 200	Between 30 and 36	About 8	About 800

Lender	Housing Finance Products Offered	Underwriting Terms	Loan Amount (UGX, Millions)	Interest Rates per Annum (%)	Current Mortgage Book (UGX Billions)	No. of Housing Finance Loans
Standard Chartered	› House purchase loans › House construction loans › Home improvement loans › Home completion loans › Equity releases	› Both salaried income and income from other businesses (income from other businesses should be banked) › Six months' bank statements › Copy of employment contract › Pay slips from three consecutive months › Loan repayment should not exceed 40% of the total of salaried income and income from other businesses › Loan tenure of up to 20 years › Value of loan to property is between 70% and 80% › Collateral is the property and land title › Approved bills of quantities and building plan for house construction	From 50 to 5000	Between 16 and 19	About 20	About 100
Kenya Commercial Bank	› House purchase loans › House construction loans › Home improvement loans › Home completion loans › Equity releases	› Both salaried income and income from other businesses (income from other businesses should be banked) › Six months' bank statements › Pay slips from three consecutive months › Loan repayment should not exceed 40% of salaried income › Loan tenure of up to 20 years › Value of loan to property is between 70 - 80% › Collateral is the property and land title › Proof of employment › Approved bills of quantities and building plan for house construction loan	From 50 to 3000	Between 19 and 21	About 200	About 200

Source: Interviews with Commercial Banks

5.4 Summary

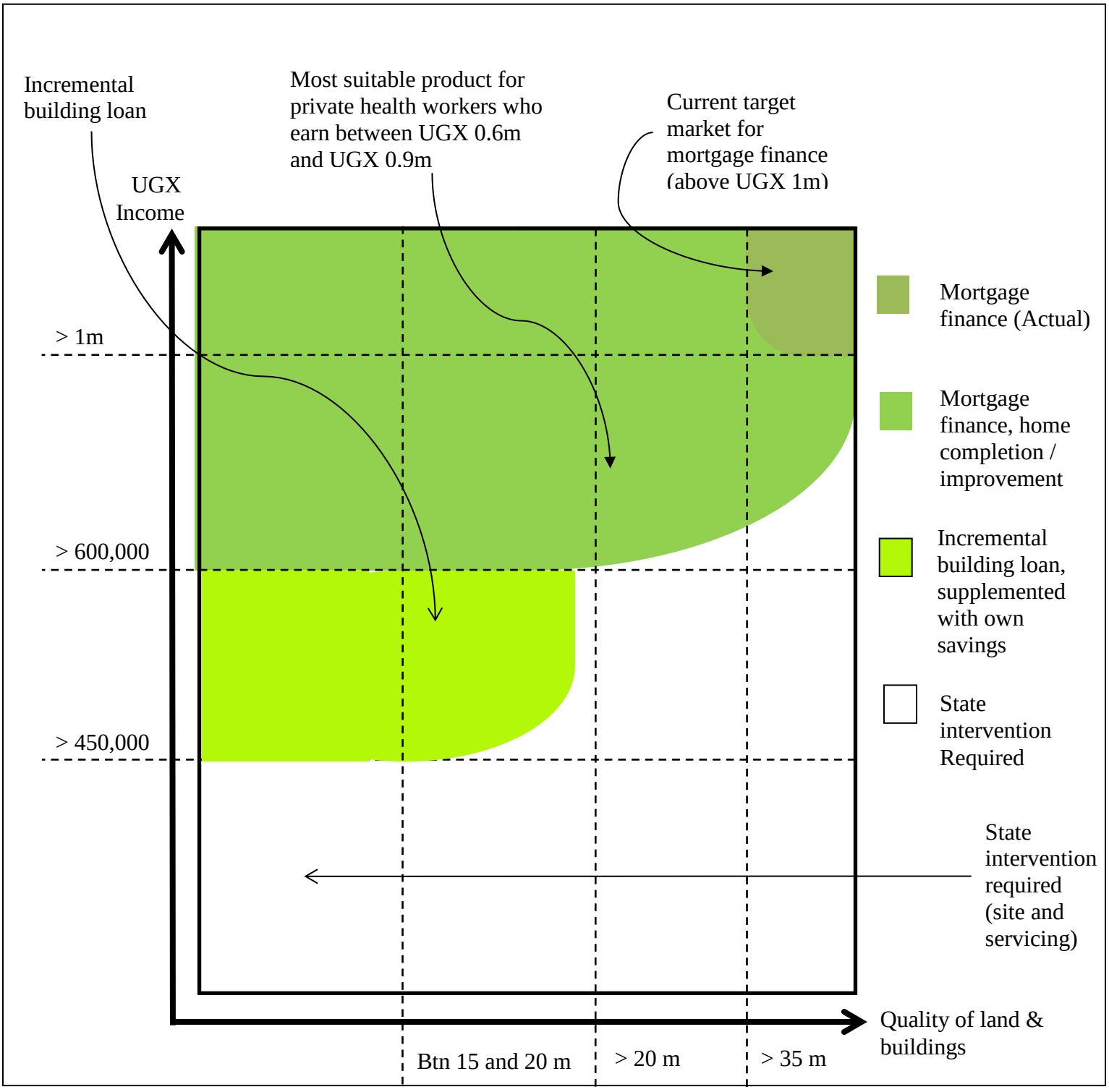
Very few private health workers (less than 5 percent) rely on mortgage financing to purchase their homes. Health workers are deterred by the required down payment (at least 30% of the property value), high interest rates (between 16 and 30 percent), collateral conditions, and the high prices of the few well-built houses in planned neighborhoods. More specifically, in order for banks to provide mortgage financing, they require:

- Collateral that is:
  - Of sufficiently high quality to last the duration of the loan period (this ensures that in case of default, banks can recover their full outstanding debt amount)
  - Available for transfer (i.e. land which is titled and buildings that are built with durable certified materials)
- Income that is:
  - Sufficient to repay monthly installments (about 40% of salary) on the loan

Since the majority of private health workers cannot readily meet the above terms, the most appropriate option for them to become home owners is to build their houses incrementally—using owner savings, supplemented by relatively small, short term (about 5 year) loans from either commercial banks or micro-finance institutions.[8] This approach appeals to lenders as well as borrowers who consider the smaller mortgages less risky. See Figure 4 below for more details.

[8] Most of the homes built by the young and the lower-middle class, who constitute about 35 percent of the labor force, have been built this way.

Figure 4: Expanding housing finance to low income health workers



5.5 Recommendations

Recommendations on how to enhance access to housing finance among health workers are presented in two sections. The first section presents recommendations on how to enhance access to housing finance among private health workers who earn UGX 1–2 million or US $ 400–800 (higher paid health workers). The second section presents recommendations on expanding access to housing finance among private health workers who earn below UGX 1 million (lower paid health workers).

5.5.1 Higher Paid Health Workers

This study recommends that USAID supports selected commercial banks to develop "mini mortgages" that are small enough to be affordable but large enough to enable health workers to purchase modestly priced houses.

Mini-mortgages are becoming useful tools to finance Uganda's middle class. Mini-mortgages are likely to be collateralized, but differ from conventional mortgages in that they are likely to involve underwriting of informal income. The tenure of the mini-mortgage is also shorter than the conventional 20 year loan product, often 7 to 12 years. The smaller size, lower collateral conditions, and shorter terms make mini-mortgages attractive to higher paid health workers and are used by some banks to lend to this market segment.

Presently, there are only two commercial banks (Stanbic Bank and Housing Finance Bank) that address the housing needs of their customers (some of whom are private health workers) who earn between UGX 2 million and UGX 3 million using the "mini-mortgage–modestly priced house" arrangement. This study therefore recommends that other banks be encouraged and supported, where necessary, to adopt such housing finance packages to address the needs of private health workers and other customers.

Stanbic offers mini-mortgage loans from as low as UGX 30 million (US $ 12,000), payable between 5 to 15 years. To address collateral requirements, Stanbic Bank appraises the quality of the property, including its neighborhood and registration (title). Stanbic also underwrites other forms of income (e.g., from supplemental businesses, pensions, etc.) if it is banked on a customer's account at Stanbic. For example, if a customer owns a taxi or rental units, and the monthly proceeds from these businesses are banked on the customer's account, the bank will appraise them when evaluating his/her mini-mortgage application.

This study therefore recommends that banks that offer mini-mortgages consider going further down-market by revising their mini-mortgage terms. The study proposes that mini-mortgages be offered at the following terms to enable middle class health workers greater access to mortgages: (i) more flexible interest rate conditions that are lower than normal commercial rates (which can be supported through a guarantee); (ii) a down payment of 10 percent; (iii) monthly repayments not to exceed 40% of a borrower's income; and (iv) loan terms of up to 25 years. Table 5, below, summarizes this scenario, indicating that higher paid health workers (directors, doctors and clinicians), can afford to borrow mini-mortgages of UGX 35 million (US $ 14,000) and UGX 42 million (US $ 16,800), to purchase houses of 60m^2 and 80m^2.

Table 5: Housing Loans (UGX, millions)

Component	60m² House	80m² House
House Cost (UGX, Millions)	34.8	41.44
Mortgage Amount at LTV of 90% (UGX, Millions)	31.3	37.3
Gross Monthly Income (UGX, Millions)	1.31	1.6
Monthly Mortgage Payments (UGX, Millions)	0.52	0.63

Source: Interviews

5.5.2 Moderate to Low Paid Health Workers

This study recommends supporting moderate to lower-paid health workers to work with/through housing cooperatives to assist them in mobilizing savings for a mortgage down payment. Housing cooperatives can assist health workers to jointly mobilize savings which are then deposited on a regular basis. Over time, funds are generated and the bank can offer cooperative members zero percent down payment loans towards a mortgage.

This type of scheme has been used in other sectors in Uganda to facilitate low income individuals' access to permanent housing. For example, the Namuwongo Society Housing Cooperative helped low income earners up-grade the slum area where they lived. Through the cooperative, members mobilized savings and banked these savings in a bank account at Housing Finance Bank, in the name of the cooperative. The savings were used to build permanent structures.

Table 6, below, presents the advantages and some possible risks of working through housing cooperatives to mobilize savings for moderate to low income health workers.

Table 6: Working with Housing Cooperatives

Advantages	Possible Risks
Through housing cooperatives, health workers are educated collectively on savings mobilization and its importance to securing a mortgage.	Possible mismanagement and administrative inefficiency on the part of the cooperative.
Working through a housing cooperative can mitigate the risk of default and the misuse of loans.	
Savings are mobilized collectively, which enables individuals to leverage the savings of the collective.	

Source: Compiled by Consultant

By gradually saving through a cooperative, low income health workers can build their houses incrementally, using sequential zero percent down payment loans of between UGX 5 million (US $ 2,000) to UGX 6 million (US $ 2,400) to finance the building of their homes. Below is an illustration of how this process might proceed:

- **Stage One:** At this stage, the health worker will access a loan of UGX 5.3 million, repayable in 5 years, to buy land at UGX 4.5 million, and also embark on the initial stages of construction, building the foundation, priced at UGX 0.8 million.
- **Stage Two:** At this stage, the health worker will access a loan of UGX 6 million. The loan will be used to build the house up to wall plate level, at a cost of UGX 2.6 million; roof the

house, at a cost of UGX 2.2 million; and build the floor slab and plaster the walls, at cost of UGX 1.2 million.

> **Stage Three:** At this stage, the health worker will access a loan of UGX 5.9 million. The loan will be used to: (i) Build the ceiling using ceiling boards (UGX 1.6 million); (ii) fit windows and doors (UGX 1.2 million); (iii) work on the plumbing (UGX 0.9 million); (iv) wire the house for utilities (UGX 0.6 million); (v) apply and install a water meter, (UGX 0.2 million); (vi) plaster the outside of the house (UGX 1.1 million); (vii) paint the inside and outside of the house (UGX 1.2 million).

Through a housing cooperative, health workers could also embark on building their houses as a group. This recommendation is proposed based on a model Stanbic Bank adopted to help a company address the housing needs of its staff. In 2012, Stanbic offered mortgages to employees of its client (a company) under special terms. The company had an account with Stanbic Bank and so did its staff. Before the Bank was approached to offer mortgages, the staff and the company identified and bought a piece of land, on which staff houses would be built. The company also set aside a fixed sum of money as a guarantee for staff to access mortgages (approximately a 30% down payment for all staff to access mortgages). The company engaged a reputable construction firm to build the houses, in consultation with Stanbic Bank. Staff monthly mortgage repayments were deducted from the company's account.

6.0 Conclusion

Uganda's private health sector is constrained by several factors, including small facilities with low in-and out-patient capacity, mediocre equipment, insufficient working capital and low levels of staff training. At the same time, there has been increased pressure from the general public for better quality and more accessible private health care. The USAID/Uganda Private Health Support Program, launched in 2013, has demonstrated the need for concerted efforts and support from both the Government and donors to help the private health sector enhance its operational efficiency and ultimately reach a reasonable scale, particularly among the underserved peri-urban and rural populations. Current efforts by the USAID/Uganda Private Health Support Program to partner with financial institutions to enhance access to financing for private clinics and health workers are steps in the right direction. To sustain these efforts, however, financial institutions (banks) need to demonstrate more creativity in designing financial products that are affordable for those within the private health sector to enable physical expansion and growth.

Annex I: Proposed Financial Institutions to Partner With

Table 7 below delineates proposed banks to which new credit guarantees can be provided by the USAID/Uganda Private Support Health Program, to enhance access to credit and housing finance for health facilities and health workers. The table outlines the reasons for selecting each bank.

Table 7: Proposed Banks to Provide New Credit Guarantees

Bank	Reasons to select the bank to partner with USAID Private Support Health Program to offer affordable housing finance to private health workers
Stanbic Bank	› Stanbic Bank has the second largest mortgage portfolio after Housing Finance Bank. The mortgage portfolio is UGX 40 billion and growing, compared to Housing Finance Bank's portfolio of UGX 150 billion. This demonstrates that the bank has attributed a high level of importance to enhancing access to housing finance among the population. › The Bank has made progress in offering non-conventional mortgages (mini-mortgages), and it has over the years developed the capacity to underwrite both formal and informal income. › Stanbic Bank remains Uganda's leading financial institution with a recognized and trusted brand and a strong balance sheet. The bank holds about 30% of the total assets in the financial sector. › Stanbic Bank has 190 branches, spread across the country. This has given the Bank adequate presence in urban centers and modest presence in rural areas. › Stanbic Bank has a reputable record and acceptable experience working with developers (NHCCL and Akright, among others) in offering housing finance to their clients. › During the last five years, Stanbic Bank has developed innovative approaches to offering housing finance to the underserved. The Bank partners with companies to help their staff access housing finance.
Equity Bank	› Equity Bank has over 10 years' experience in the provision of housing micro-finance (similar to mini-mortgages). › Equity Bank has a mortgage portfolio of about 8 billion, with about 800 clients. › Equity Bank has substantial experience in underwriting both formal and informal income. Collateral should be a land title, though on rare occasions, car logbooks are accepted. Borrowers should prove that they can pay back the loans they seek with either audited books of accounts for their businesses, bank statements if they bank elsewhere or a salaried account with the Bank. › Equity Bank has expertise working with developers (NHCCL and Akright, among others) in offering housing finance to their clients.

Source: Compiled by Consultant

Table 8, below, outlines the advantages and risks that might emerge if USAID/Uganda Private Support Health Program were to partner with the above banks to enhance access to affordable finance among private health workers.

Table 8: Advantages and Risks of Partnering with the Banks

Evaluation Criteria	Advantages	Possible Risk
Scale/ Effectiveness	The banks utilize market experience & expertise in offering mini-mortgages and housing micro-finance.	Liquidity is a long-run constraint.
Efficiency	Effective demand is expected to be large, following the design of affordable loan products.	High interest & building costs, & minimal efforts to design affordable houses
Relevance	Suitable for a substantial percentage of private health workers with modest income (UGX 1 and above)	Will remain relevant, but preferences call for careful linking of affordability of housing finance products with the design of affordable houses
Sustainability	No subsidies needed	Liquidity will be a major issue.

Source: Compiled by Consultant

The study recommends that the credit guarantees are provided to the above two new banks at the terms below:

- *Credit Guarantee Cover:* The credit guarantee will cover 60% of the principal amount outstanding on defaulted loans.
- *Reducing Collateral Requirements and Lengthening Loan Term:* Using the credit guarantees, the above two banks will be required to relax collateral requirements and/or lengthen the loan term (for example, from 5 to 7 years) to enhance access to formal credit to private health facilities and health workers. It will be the responsibility of the above two banks to ensure that loans granted under the credit guarantee are used for the intended purpose.
- *Premium Rate on the Credit Guarantee:* A premium will be payable at a rate of 1.5% per annum on the highest amount that is outstanding on the credit guarantee. The liability to pay the premium will be responsibility of the above two banks.
- *Interest rates:* The rate of interest on loans guaranteed will be determined by the banks, however, this report recommends more flexible interest rate structures to enable more low-income health workers to obtain housing finance.
- *Contribution to all the objectives of the USAID/Uganda Private Health Support Program:* Targets should be set to ensure that loans guaranteed contribute adequately to all objectives of the USAID/Uganda Private Health Support Program. At least 70% of the loans guaranteed should help the proprietors of private health facilities to expand and/or renovate their premises, while the balance should help the proprietors enhance the technical skills and capacity of their staff, and/or strengthen the management information systems of their facilities.

Annex II: Cost of Land In Urban Areas

Overall, the cost of land depends on the level of developments within an area and the distance from major towns. For example, the cost of a 450m^2 plot of land in Luzira, 7km from Kampala city, is valued at UGX 150 million (US $ 60,000), while the cost of the same plot size in Bulenga, 17km from Kampala city, is valued at UGX 22 million (US $ 8,800). Table 9, below, outlines the cost of land in the peri-urban and urban areas where the private health facilities surveyed are located.

Table 9: Cost of a 450m^2 Piece of Land in Selected Urban Areas near Kampala City

Town	Distance from City Centre (km)	Cost of a 450m2 plot (UGX, millions)
Namugongo, along Jinja Road	12	39
Bweyogerere, along Jinja Road	9	48
Luzira	7	150
Bwebajje, along Entebbe Road (near Akright's Kakungulu Estate)	18	35
Mukono, along Jinja Road	15	30
Kasangati, along Gayaza Road	15	25
Nansana, along Hoima Road	13	28
Seeta, along Jinja Road	13	30
Abaita Ababiri, along Entebbe Road	30	32
Bulenga, along Mityana Road	17	22
Kakooba Division; Mbarara Municipal Council	5	18
Masese Division; Jinja Municipal Council	8	15
Ojwina Ward; Lira Municipal Council	8	12

Source Field Interviews

Annex III: Selected Real Estate Developers in Kampala

Developer	Houses built to date & sold	Types of houses offered	Price Ranges (UGX)	% Population Targeted
Pearl Estates	88 Apartments built and sold	2 – 3 bedroom apartments	167 – 200m	0.05%
Nationwide Properties	1,336 houses built by end of 2010	3 – 4 bedroom bungalows	148 – 289m	
Blue Ocean Group	53 houses built and sold	2 – 4 bedroom single houses	126 – 470m	
Kensington Group	150 houses built and sold	2 – 5 bedroom apartments	200 – 530m	
Akright Projects	1480 houses sold. Plans to build 1500 houses by 2017	2 – 4 bedroom houses	45 – 250m	0.23%
National Housing and Construction Company	5500 houses built and sold. Plans to build 5000 houses by 2017	Apartments of 1 – 3 bedrooms and single houses of 2 – 4 bedrooms	30 – 350m	Between 0.09 and 0.27%

Source: Field Interviews

Annex IV: List of Private Health Institutions Surveyed

Name Of Health Facility	Contact Persons	Tel Contacts
Mbarara Medical Specialists	Mulwowa Grace Daphine Natuhunda Clare Ngabirano	0782393637 0782393637 0782393637
The Heart Clinic	Baluku. George Muhindo	0775164724 0775164724
Good Samaritan Clinic	Mutekanga Betty	0782381996
Highway Health Services	Nam Richard Akoli Elizabeth	0772466599 0772466599
La Santé Clinic	Kabugo Nobert Amongin Martha	0752654731
Ebenezer Ltd Clinical Laboratory	Stephen Kiyimba	041-4342255
Friends' Clinic	Khingi Ben	0772400732
Medicare Health Professionals College H/C	Kampikaho Alexander	0772475708
Ralpha Medical International Company Limited	Resty M	0752068737
Victoria Medical Centre	Wangoine Wilson	
Allied Medicare Centre	Kayizzi Geoffrey Owembabazi Doreen	700538384 700538384
Mid Kireka Medical Centre	Isyepe Kenan Harriet Zalwango	0706341368 0706341368
Kings Midi care clinic	Arnold Kiseka	0772613300
Plus Medic Clinic	Santa Amito	
Eseri Domiciliary Home	Christine Lubwama. Nalugo Vicky.	0787909850. 0787909850.
Lira medical and Diagnostic Services	Amule Flavia Wambi George	
Makula Nursing Home	Katumwa Annet Nkurunziza Willy Namubiru Jesca	0782865571 0772393576 0772611699
Mbarara Tropical Health Clinic and Nursing Home	Balya Tumwesigye J.M. Mbabazi	
Safer Medical Center Seeta	Rose Kyayi. Deborah Kisakye Shamim Babirye.	0701945332 0704114618 0779904014/0706846014
Gwafu Clinic and Nursing	Ruhiga Victor Lydia Nabwire	0784172620 0718697755
Sir Albert General Clinic and Nursing Home	Doctor Stephen	0782422487.

Name Of Health Facility	Contact Persons	Tel Contacts
Mbarara Safe Motherhood Home	Nuwagaba Jonan Wasswa Salongo George	
Mbarara Clinic and Diagnostic Centre	Mpagi Fred	0790914285
Seeta Medical Center	Tulyamuleeba Benon	0772641451. 0772476309
Kampala Road Medical and Eye Care Clinic	Balina Nsereko Daniel Kintu John	0772446227 0772446227
Rippon Medical Services	Adoch Christine Doctor Charles	0772475677 0772475677
Ntimba Medical Centre	Fred Wamala Apio Theresa	0782195914
Ssan Medical Centre	Isyepe Kenan Epher	0779209022 706341368
Gibmark Pharmacy and Medical Center	Mary Kisaakye	0700905838
Care Plus Medical Centre	Joel Kakungulu	0789190901
Rona Health Centre	Dorothy Nakamanya	0783115257
Ronelo Medical Centre	Oburu Jeremiah	0783261346
Keen Hospital	Lydia Twikirize Prisicilla Owobusobozi	0712527474/0702070652 0703546204/0772655397
Allied Health Clinic	Charles Aruba	07521394644
Fionah Clinic	Dr. J Batwala	0752404432/0414289229
The Ntinda Medical Centre	Paul Serucaca Ebyarimpa Medard	0774412841 0772493386
Family Life Medical Centre	Semwogerere Julius Bwanika Moses	0774970071 0774048240
Zam Zam Clinic	Tony Okello Precious Tubihemukama	0773577242 0787040600/0706844251
Divine Grace Medical Clinic	Nuwabiine Katende Sylvia	0777199744
Goal Medical Centre Ntinda	Alex Luga Issa Mulobole	0777299623 0702607857
Seo Care Clinic	Tembo George Asasio Kule	0775173517 0771593605
Rapha Health Services	Peter Kulaba	0794247005
Nyakibale Hospital	James Mugisha	0784667056
Bukiriro Health Clinic	Robert Mwebembezi	0776649074/0702305159
Ziiwa Memorial Medical Centre	Marice Ziiwa Kiwanuka John	0772687088 0772687088

Name Of Health Facility	Contact Persons	Tel Contacts
Mukono Medical Clinic.	Mubiru Richard Muguluma Donald.	0773007389 0773007389
St Helen Maternity and Nursing	Oested Teru	0775 489178
Koob Clinic and Nursing Home	Doctor. Byenkya Ms. Prosy.N.	0772920890 07853970616
Ms Family Health Clinic Seeta.		0777674963
Eseri Clinic	Bukenya Muwonge Paddy Muwanika Moses	0775989999/0755296599 0706048240/0774048240
Rojos Clinic	Ojabira Robert	0701630345/0755733463

Banks Interviewed

Name of Bank	Official Interviewed	Tel. Contact
Standard Chartered	Timothy Kiyimba	0794760250
Housing Finance Bank	Peter Kalangwa	0772621104
Finance Trust Bank	Lwanga Ali	0712851543
KCB Bank	Evans Katwebaze	0756574056
Centenary Bank	Enabu Simon Andrew	0772654776
Centenary Bank	Mr. Emmy K. Mugisha	0772 369948/0702 369948
Stanbic Bank	Mr. Philemon Karungi	0773 367343
Equity Bank	Mr. Laman N. Masaba	0704 286108