ACCESS TO HOUSING FINANCE IN AFRICA: EXPLORING THE ISSUES

No. 10

TANZANIA

Overview of the housing finance sector in Tanzania, commissioned by the FinMark Trust.

Dr James Mutero
Matrix Development Consultants
March, 2010

BACKGROUND TO THE SERIES

Since 2002, the FinMark Trust has been pursuing its mission, "Making Financial Markets Work for the Poor", first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

A key product developed by the FinMark Trust is FinScope™, a national-level survey of individual usage of financial services, now being undertaken in eleven African countries.[1] FinScope™ will provide baseline data to stimulate policy change and support innovation by commercial providers seeking to deliver products and services sustainably to consumers who are currently outside the formal financial system. FinMark Trust will build on the impact of FinScope™ by promoting and supporting change processes across the continent.[2]

The Centre for Affordable Housing Finance in Africa, a division of the FinMark Trust,[3] conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor. Broadly, the CAHF's activities can be separated into the following categories:

- Understanding the housing asset
- Exploring housing finance innovation
- Understanding issues relating to housing finance in Africa

This report is the tenth in a series of studies that explore access to housing finance in various African countries. It is meant as an input into a larger debate about how to enhance access to housing finance by low and moderate income earners throughout Africa. Comments and contributions can be sent to the CAHF Coordinator, Kecia Rust on Kecia@iafrica.com.

The CAHF hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

Country Profile: Tanzania[4]

- **Population:** 41 million (July 2009 estimate) – 25% urban (2008) growing at 4.2% pa (2005-10 estimate)
- **Capital:** Dar es Salaam / **Area:** 947 300km² (364 000 square miles)
- **Major language:** Kiswahili, English / **Major religions:** Christianity, Islam
- **Life expectancy:** 50.5 years (men) 53.5 years (women) (2009 estimate)
- **Literacy**: 69.4% of people over the age of 15 can read and write Kiswahili, English or Arabic.
- **Monetary unit:** 1 Tanzanian shilling (TZS) = 100 cents
- **Main exports:** Sisal, cloves, coffee, cotton, cashew nuts, minerals, tobacco
- **GNI per capita:** US $440 (World Bank 2008)
- **Mobilie phones in use**: 14.7 million (2009) / **landlines**: 179 849 (2009)

[1] FinScope™ is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments. FinScope™ explores consumers' usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope™ is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. See www.finscope.co.za

[2] By 2012 it is intended that some 20 countries in Africa will have the survey. Repeat studies will take place on 2-3 year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison especially around access to finance. FinScope™ data will provide financial service providers and regional integration initiatives with comparable, standard and reliable data about demand for financial services across borders. (FinScope™ Africa Brochure)

[3] To go to the CAHF page on the FinMark website, go to www.finmark.org.za, click on "focus areas" and then click on "housing finance".

[4] From FinScope™ website.

Exploring housing finance in TANZANIA

Tanzania has a weak housing finance and property market and nearly the entire urban housing stock has been built by individual households and not by established developers. As the vast majority of households do not have access to formal finance they depend a great deal on their own savings and informal financial sources to pay for the land, building materials and labour they need for construction[5]. As a result, most people build their houses incrementally over many years as resources become available.

Informal settlements accommodate the bulk of the urban housing stock, typically in localities with inadequate access to clean water, proper sanitation and paved roads[6]. In Dar es Salaam, the principal commercial centre, an estimated 80 per cent of the residents live in such settlements[7].

Urban housing is particularly challenging for a number of reasons: the need to house a rapidly growing number of households, most of them poor; high residential densities with the potential to increase public health risks especially in settings with limited water and sanitation services; and poor access to finance which makes it difficult for most households to acquire adequate housing. In the country's rural communities, which account for around 72 per cent of the national population, traditional construction is the norm[8] and the housing situation is not as dire. There is practically no housing market in these communities, as in most of rural Africa, ruling out the financial solutions commonly advocated for urban housing.

There are no reliable estimates of the urban housing need but a figure of 80,000 dwellings a year has been given in official estimates[9]. This estimate reflects "social need" and not demand, as it does not take account of the ability of households to pay for housing. Notwithstanding the current shortfall in housing provision[10], some houses have stood half-finished for years, especially in new construction sites, mainly because plot owners do not have the funds to build to completion. These unfinished dwellings represent "dead" capital and draw attention to the substantial economic cost associated with the lack of affordable finance[11].

Housing microfinance, structured to offer small building loans to the poor, started only recently and the existing loan portfolio is tiny. But there is a sizeable population of low- and middle-income people in the salaried cadre that takes out consumer loans from the banking sector for house building. These loans are not recorded as home loans in official statistics thus understating investment in housing. Wealthy households use cash savings to build and therefore the role of mortgage finance has so far been minimal. But its potential to meet the needs of middle and high income households is increasingly being acknowledged, although its growth will continue to be frustrated by the low level of incomes for the majority.

This report gives an overview of housing finance in Tanzania, with a focus on access for the poor. Drawing on primary and secondary evidence, the report shows that both housing microfinance and mortgage finance, although in demand, are yet to take root, their development held back by a variety of problems:

- legal bottlenecks particularly those that surround land delivery;
- limited institutional capacity of lenders;
- poor financial literacy[12] among potential borrowers, with more than a half of the population reported as having no knowledge of commonly used financial terms[13];
- limited market knowledge of housing finance by financial institutions; and,
- a financial sector that is wary of the risks of lending for housing, especially in view of the purported unwillingness of borrowers to service their loans and the difficulties that surround foreclosure.

The report employs macro data to show that the quality of the housing stock has improved substantially since the 1990s, driven by non-conventional sources of housing finance. This aspect is investigated to highlight the

5 Indeed, only 5 per cent of Tanzanian have access to formal finance of whatever kind (Finscope 2006).
6 See for instance Merrill, S. and Tomlinson, M. (2006)
7 United Republic of Tanzania (2008)
8 See, for instance, Mosha, L. H. (2008). He notes, however, that building in industrial materials was favoured in the *Ujamaa* villagisation programme of the 1970s thus juxtaposing traditional housing and modern construction in some settlements.
9 This rough estimate is given in United Republic of Tanzania (2009) *op. cit.*
10 A housing deficit of 2.5 million dwellings is given in official estimates but it is not clear how this number has been arrived at.
11 This point has been acknowledged in the current housing policy draft -- see United Republic of Tanzania (2009) *op cit.*
12 Defined in Finscope 2006 as "the failure to understand the language and ideas used to describe financial products and services".
13 Finscope 2006

central role of micro loans and savings in raising the quality of the housing stock as well as in financing new construction.

Acronyms and Abbreviations

AUHF	African Union of Housing Finance
ACB	Akiba Commercial Bank
BOT	Bank of Tanzania
CDRB	Cooperative and Rural Development Bank
DANIDA	Danish Development Agency
DCB	Dar es Salaam Community Bank
DID	*Development International Desjardins*
Cap.	Chapter
CBA	Commercial Bank of Africa
CBO	Community Based Organisation
CEO	Chief Executive Officer
CIUP	Community Infrastructure Upgrading Project
EIU	Economist Intelligence Unit
FINCA	Foundation for International Community Assistance
FSDT	Financial Sector Deepening Trust
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFI	Microfinance Institution
NBFI	Non-Bank Financial Institution
NBS	National Bureau of Statistics
NGO	Non-Governmental Organisation
NMB	National Microfinance Bank
NORAD	Norwegian Development Agency
PRIDE	Promotion of Rural Initiative and Development Enterprises
PTF	Presidential Trust Fund
TAFSUS	Tanzania Financial Services for Underserved Settlements
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
TAWLAT	Tanzania Women's Land Trust
THB	Tanzania Housing Bank
WAT	Women's Advancement Trust

Overview of Tanzania's macro economy

Tanzania is a low-income country in East Africa with an estimated population of 43 million[14] people. Its economy is dominated by agriculture, which accounted for 45.3 per cent of Gross Domestic Product (GDP) in 2006, followed by services (37.3 per cent) and industry (17.4 per cent)[15]. This dependency on agriculture exposes the country to the vagaries of the weather and unfavourable international prices for primary products. The recent global financial crisis has adversely impacted the economy, reducing financial flows in tourism, exports and foreign direct investments[16]. The key country data, and comparator indicators for Sub-Saharan Africa, are given in Table 1.

Table 1: Tanzania and Sub-Saharan Africa – Key Data

POVERTY and SOCIAL	Tanzania	Sub-Saharan Africa
2007		
Population, mid-year *(millions)*	40.4	800
GNI per capita *(Atlas method, US$)*	400	952
GNI *(Atlas method, US$ billions)*	16.3	762
Average annual growth, 2001-07		
Population *(%)*	2.5	2.5
Labor force *(%)*	2.4	2.6
Most recent estimate (latest year available, 2001-07)		
Poverty *(% of population below national poverty line)*	36	..
Urban population *(% of total population)*	25	36
Life expectancy at birth *(years)*	52	51
Infant mortality *(per 1,000 live births)*	74	94
Child malnutrition *(% of children under 5)*	17	27
Access to an improved water source *(% of population)*	55	58
Literacy *(% of population age 15+)*	69	59
Gross primary enrollment *(% of school-age population)*	112	94
Male	113	99
Female	111	88

Source: World Bank (2009)[17]

The Tanzanian economy was in severe distress in the mid-1980s but has since been radically transformed. The International Monetary Fund (IMF) distinguishes three broad phases of this transformation: 1970-1985 which was characterised by *Ujamaa* (socialism) and economic decline; 1986-1995, a period of liberalization and partial reforms; and 1996-2006, marked by macroeconomic stabilization and structural reforms. These reforms have continued to the present.

Following fifteen years of Ujamaa policy, the economy was gradually liberalized from 1986 to 1995 to remove state domination in production and promote private enterprise. Thus, prices were allowed to adjust to market levels, interest rates and the exchange rate were freed and restrictions on economic activities were phased out. Specific reforms included: (a) restructuring the financial sector and licensing foreign banks thus expanding private access to finance for investment; (b) liberalizing trade, a move that triggered an export boom and restored the country's foreign exchange reserves; and (c) denying credit to poorly performing public corporations and subjecting public finance to greater scrutiny and discipline. Reforms within the housing sector saw the winding up of a bankrupt housing bank in 1995, which had been created in 1972 as a part of government's interventionist economic policy. The IMF points out that a committed ownership of the reform process has been key to success, symbolized by *Mkukuta*, mainland Tanzania's own growth and poverty reduction strategy[18].

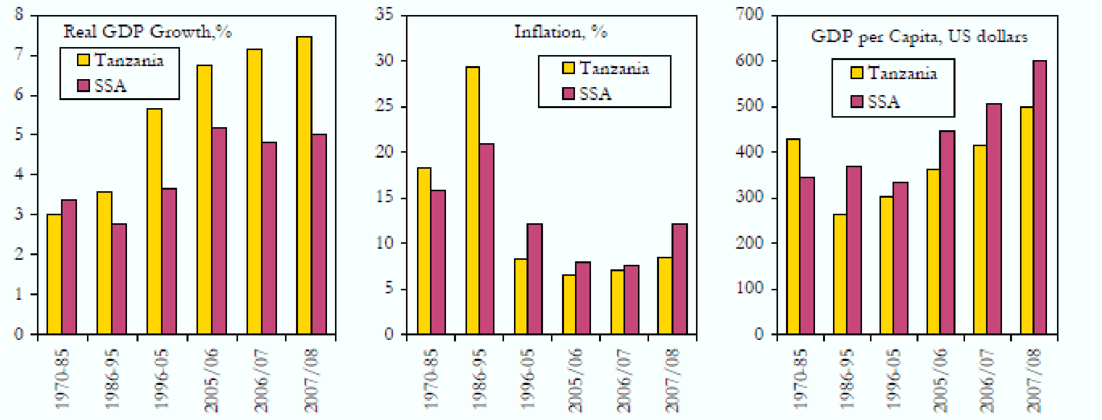
14 United Nations Department of Economic and Social Affairs, Population Division (2008)
15 World Bank. See http://devdata.worldbank.org/AAG/tza_aag.pdf
16 World Bank (2009)
17 See http://devdata.worldbank.org/AAG/tza_aag.pdf
18 IMF (2009)

Before the reforms, Tanzania had one of the smallest banking systems in Africa, dominated by a single commercial bank and other state-owned financial institutions. After two decades of liberalization, two dozen commercial banks and many other private financial institutions were in operation, offering a broad range of financial services. Since 2000, credit to the private sector has expanded at 30-40 per cent a year, supported by growing customer deposits, and bank performance has improved[19]. In spite of these reforms, household access to credit is appallingly low with a mere 9 per cent of the population reported as having access to financial services from the formal sector in 2006[20]. The second generation of financial reforms, now underway, seeks to broaden the reach of financial services and expansion of housing finance would support this goal.

Although poverty is still deep and widespread, the economy has grown strongly, outperforming most of Sub-Saharan Africa. Real GDP growth averaged 7 per cent a year for the period 2001-07, more than twice the growth rate of the previous two decades[21]. Inflation was very high over the 1986-96 decade but it fell to single digits starting in the mid-1990s, one of the best performances in Sub-Saharan Africa. Figure 1 compares macroeconomic performance between Tanzania and Sub-Saharan Africa for the period 1970-2008. The key economic data are set out in Annex 1.

In October 2009 the exchange rate was Tanzanian shillings[22] (TZS) 1,230 to the US$, having depreciated by 7 per cent over the previous year[23]. The overall lending interest rate was 14.76 per cent in October 2009, down from 14.90 per cent a month earlier. The yield on Treasury bills peaked at 13.33 per cent in March 2009, before falling sharply to 4.21 per cent in September of the same year and rising slightly to 5.17 per cent a month later[24]. The overall interest rate structure is given in Annex 2.

Figure 1: Tanzania and Sub-Saharan Africa: Macroeconomic Performance, 1970-2008



Sources: Country authorities; World Bank World Development Indicators; IMF staff estimates.
Note: SSA average is based on calendar year and excludes South Africa, Zimbabwe, Democratic Republic of Congo, and oil-producing countries.

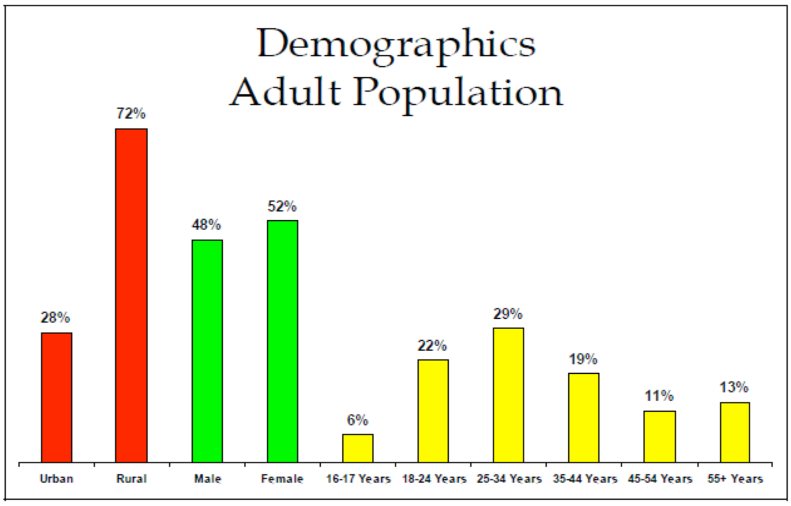
Source: IMF (2009)

Demographic factors and employment

Around 28 per cent of Tanzania's 43 million people live in urban areas. The country is urbanizing rapidly as the urban population is growing at 7 per cent[25] a year, far higher than the national growth of 2.5 per cent. By 2030, the urban population will approach 40 per cent of the total population. The key demographic profile of the country's[26] adult population (i.e. 16 years and older) is given in Figure 2.

19 IMF (2009)
20 Finscope (2006)
21 IMF (2009) *op cit.*
22 Symbol TZS but some publications use TSh.
23 Bank of Tanzania (2009)
24 Bank of Tanzania (2009)
25 United Nations Department of Economic and Social Affairs, Population Division (2008) *op cit.*
26 Including Zanzibar island.

Figure 2: Demographics of the adult population



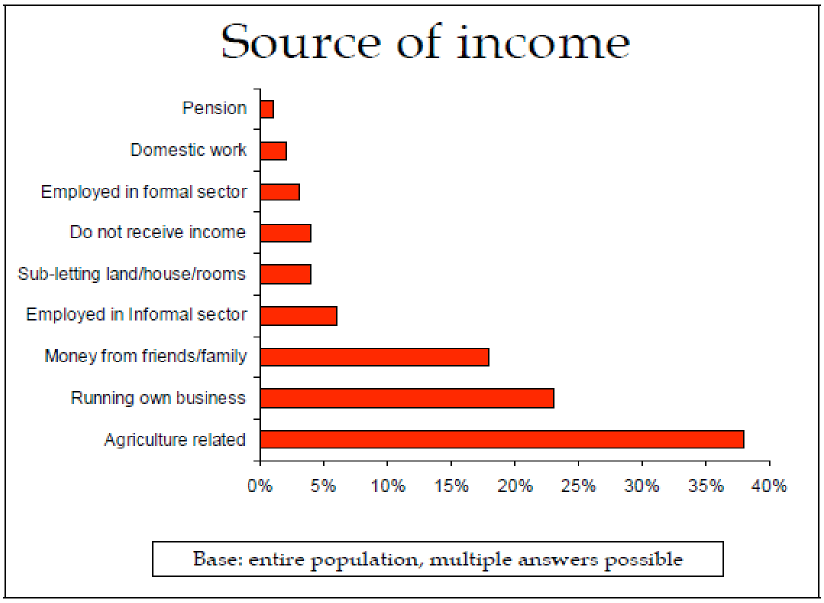
Source: Finscope 2006

Employment

Unemployment is high, with the number of unemployed given as 2.3 million people in a 2005 report[27]. The employment-to-population ratio (the proportion of the target population that is employed) was 78 per cent in 2007, down from 85 per cent in 2000. Unemployment is especially high among the youth and is more pronounced in rural communities. As the number of those joining the labour force is far higher than the growth of wage employment, the majority inevitably enters the labour market through self employment mainly in agriculture and the informal sector.

For the country as a whole, only 4 per cent of the adult population derives its income from formal employment. Agriculture, businesses and remittances from friends and family are the most important sources of income. Income from subletting of property (land, houses, and rooms) is also worth noting (Figure 3).

Figure 3: Sources of income



Source: Finscope 2006

27 United Republic of Tanzania (2005)

The financial landscape: institutions, regulation and access to finance

Financial institutions

The number of private banks increased rapidly in the early 1990s following official permission for firms to enter the financial market. At the end of 2007 there were 24 licensed commercial banks (including subsidiaries of major international banks), 10 non-bank financial institutions (NBFIs), numerous foreign exchange bureaus, pension funds, insurance companies, the stock exchange, and several hundred savings and credit cooperatives (SACCOs)[28].

Capital market: The capital market is in its early stages of development and there is only a limited range of financial instruments and securities. The market is regulated by the Capital Markets and Securities Authority, established under the Capital Markets and Securities Act of 1994.

Securities are traded on the Dar es Salaam Stock Exchange, established in 1996 as a company limited by guarantee. The exchange has an Automated Trading Electronic System. There are 15 listed companies out of which four are commercial banks and market capitalization is TZS 5,024.45 billion (US$ 3,818.87 million). Only seven corporate bonds are listed, six of them issued by commercial and development banks. Government bonds listed at the exchange have a tenor of 2 to 10 years.

Regulatory framework for financial institutions

Prudential regulation of financial institutions is the responsibility of the Bank of Tanzania (BOT), the country's central bank. Regulation is governed by the following statutes:

- The Banking and Financial Institutions Act (2006);
- The Bank of Tanzania Act (2006);
- The Companies Ordinance (Cap 212)

BOT uses a tiered structure for licensing and regulating those financial institutions that fall under its remit, especially with regard to requirements for core capital (Table 2).

Table 2: Core capital requirements for regulated financial institutions

Minimum Capital requirements	TZS	US$ (October 2009)
Commercial bank	5 billion	3.8 million
Regional unit commercial bank	50 million -200 million	37,700 – 151,000
Non-bank financial institution	50 million – 100 million	37,700 – 75,400
Microfinance company	800 million (national) 200 million (1 organisation)	603,800 151,000
Financial cooperative	800 million in savings and deposits	603,800

Adapted from Triodos Facet

The country has a well-established regulatory framework for microfinance institutions (Box 1).

Box 1: Regulation of microfinance institutions.

BOT has set new prudential norms and banking regulations for the microfinance industry, issued in April 2005. In order to begin implementing the new policy, the legislative and regulatory framework that was in place for the formal financial sector was amended to include microfinance.

Capital requirements for micro-lenders are now in place, at lower levels than those for the banking sector and more consistent with the size of the micro sector. Information systems must now also meet BOT standards. According to the Ministry of Finance, the key goals of this reform are two-fold: to increase wholesale loans to the micro lenders and to ensure their financial viability. This has presented an opportunity for any (registered and regulated) SACCO or (registered

28 IMF (2008)

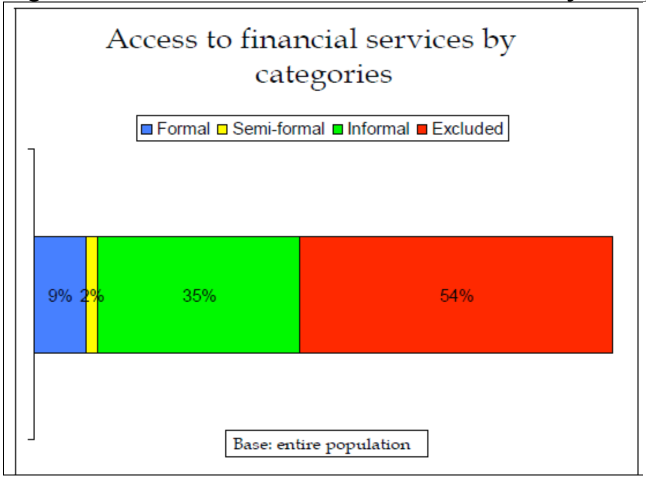
but unregulated) financial NGO to transform into a prudentially regulated microfinance institution. The reason for this move is so these institutions are able to diversify their lending products and mobilize savings through term (not demand) deposits, which they can then use to leverage additional funding to increase their scale of lending. Any commercial bank that undertakes microfinance lending will now be expected to have its microfinance portfolio regulated in terms of the new microfinance regulations, as the BOT requires segmented reporting

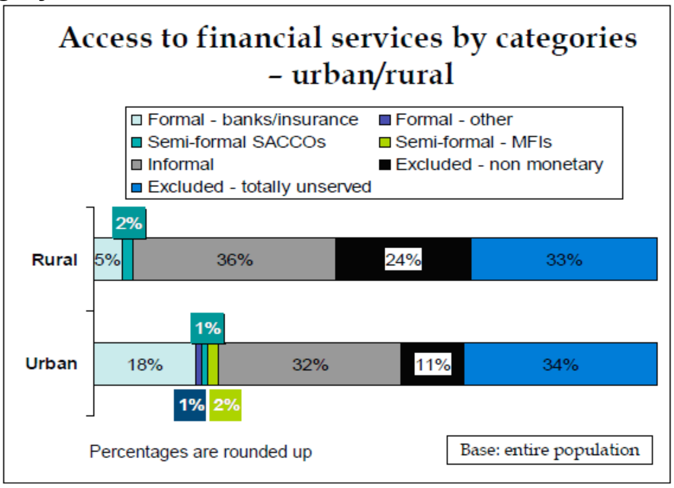
Source: Merrill and Tomlinson (2006)

Access to finance

Only a mere 11 per cent of the adult population has access to formal and semi-formal finance (Figure 4)[29]. Of the rest of the adult population, 35 per cent have access to informal sources and a staggering 54 per cent are completely excluded.

Figures 4 & 5: Access to financial services by category





Source: Finscope 2006

Disaggregating the data by rural and urban spheres, an important distinction in a study of housing finance, reveals a more nuanced picture as well as marked differences between the two categories (Figure 5). The data show that:

- A substantial part of the rural economy is not monetized: a quarter of the rural population and a tenth of the urban population use only non-monetary services;
- 18 per cent of the urban population are formally served compared to 5 per cent of the rural population; and,
- 46 per cent of the urban population compared to 57 percent of the rural population are excluded from any financial services.

Finscope 2006 showed that education is the single most important driver of access: in other words, those without education – typically in rural areas -- tend to have a poor understanding of, and little information on, financial products, and therefore limited access. Another key driver is occupational status, with those in formal employment having a far higher level of access to formal finance than those in other occupations. Yet another driver is entrepreneurial ability, although with far less impact on access than occupational status.

29 The strands or categories of access are defined in Finscope 2006 as follows: **Formal** financial institutions are those supervised by a financial services regulator now, or (in the case of pension funds) in the near future. This category includes banks and insurers. **Semi-formal** financial institutions are those with some formal supervision, but not from a financial savings regulator. This category includes the SACCOs and larger MFIs. The **informal** segment includes small, usually community-based organizations such as rotating and savings credit associations (ROSCAs), village community banks, and money-lenders. The totally un-served or **excluded** is everyone else, and includes people who may use non-monetary means to save, borrow or transfer money.

Housing policy and housing markets

Housing policy

In line with other developing countries, Tanzania initially followed a "provider model" of housing delivery, which emphasized direct housing provision by the state. This strategy was consistent with *Ujamaa,* the country's overarching framework for socio-economic development. But official policy was hostile towards urban informal settlements and these were often pulled down[30]. In the rural areas, villagisation, the use of modern construction materials and communal production lay at the core of government's housing strategy. Outcomes were disappointing all round and, starting in the 1970s, policy shifted towards sites and services projects in urban areas accompanied by official restraint from removing informal settlements. This transition was made possible by a national sites and services project financed by the World Bank but in the early 1980s this assistance ceased as a result of poor performance[31]. In the rural areas, villagisation was abandoned.

In subsequent years, there was a policy shift towards an enabling approach which sought to reduce the state's role in direct housing production, instead focusing government's efforts on: (a) creating a supporting regulatory regime for secure tenure; (b) ensuring the delivery of physical infrastructure; and (c) promoting the supply of adequate credit for housing. Notable policy milestones were the National Housing Policy of 1981; the National Land Policy of 1995, which sought to use the market to allocate land[32]; and the National Human Settlements Development Policy of 2000, which aimed to create an enabling environment in the shelter sector. Poor implementation was a common thread throughout the entire period of policy evolution largely as a result of budgetary constraints[33]. Still, these *de jure* policy statements were a signal that there was a measure of political will to address human settlements challenges.

Government's *de facto* housing policy is set out in a recent draft paper[34], which observes that investment in housing by both the public and private sectors has been inadequate. The draft policy also acknowledges the lack of a housing finance system since 1995 when the Tanzania Housing Bank was closed down. An important policy objective, the paper argues, is to consolidate a demand-driven market system for housing delivery without losing sight of the plight of marginal groups not able to afford market solutions. Five broad prerequisites for policy implementation are noted: (a) a stable macroeconomic environment that supports poverty reduction; (b) strong and efficient institutions; (c) a robust financial sector that promotes the establishment of mortgage banks; (d) adequate infrastructure and services; and (e) an efficient regulatory environment.

The paper puts forward a wide range of policy statements that seek to support a housing finance system that addresses the housing needs of all income groups. The principal objectives are to: (a) stimulate mortgage lending, especially through a re-financing facility that would extend term loans to primary lenders; (b) promote housing micro-finance; (c) mobilize local savings for housing; (d) revise legislation so that pension funds can be used to collateralize housing; and (e) ensure that title deeds and residential licences are readily available. Housing subsidies are envisaged but it is not clear how these will be financed and managed[35].

Housing markets

Housing markets are typically found in urban areas where property transactions – selling, buying and renting of housing -- are mediated by the market. It is therefore important to look into housing demand and supply and their implications for housing finance. It is also useful to draw attention to the inputs that impact supply, such as land and infrastructure.

In rural communities, in contrast, housing markets hardly exist as there is limited buying and selling of housing, and virtually no demand for rental housing. Indeed, as already noted, nearly a quarter of the rural sector falls outside the monetary system thus impeding market exchange (Figure 5).

30 See, for instance, Sheuya, S. A. (2007)
31 Martin, R. (2008)
32 See for instance, Kombe, W. J. (2000)
33 See, for instance, United Republic of Tanzania (2008) *op cit.*
34 United Republic of Tanzania (2008) *ibid.*
35 Plot owners in areas covered by the Community Infrastructure Upgrading Programme (CIUP), described later, will meet only 10 per cent of upgrading costs and the balance will be met by the state.

Housing demand: Housing demand, commonly referred to as effective demand, measures the willingness and ability of households to pay for housing. It is a function of many factors: household income; the price (or rent) of a dwelling; financing arrangements (including interest rate and the tenor of the loan); and household preferences for different attributes of a dwelling, such as location. There is cross-country evidence that households are willing to spend more on housing if they are buying or building their own house than if they are renting.

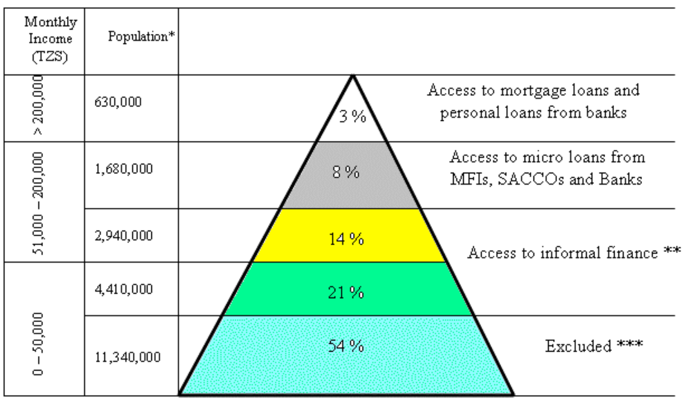
Housing demand is often contrasted with housing need, a socially derived concept that measures the number of dwellings required to house a population above an arbitrarily determined standard or norm, with no regard for the ability to pay. Estimates of housing need are commonly computed on the basis of the following:

- Housing standards that are considered socially or politically acceptable, e.g. the number of rooms per household of a given size or the minimum floor area per person;
- The existing housing shortfall, taken to be the difference between the existing stock and the number of households. More sophisticated estimates also compute the number of rooms needed to decongest the existing housing stock to desirable densities in terms of the number of persons per room or some other measure;
- An allowance for obsolescence to replace ageing dwellings; and
- Projected housing need arising from population growth.

There are no estimates of effective housing demand for Tanzania. This information gap is explained by the lack, as in many countries, of robust data on household incomes and house prices as well as inadequate behavioural information on housing consumption and investment.

In spite of the lack of good income data, some insights into housing demand can be gleaned from preliminary findings of the Finscope Survey of 2009[36], converted into an income pyramid that illustrates access to finance for different income categories Fig (6)[37]. In particular, the data show that the vast majority of the adult population[38] has very low incomes. As the data are for personal incomes only, household income would be higher since some households are likely to have more than one income earner[39]. Only some in the top income group, which constitutes a mere 3 per cent of the entire population, are likely to afford mortgage loans[40]. Another 22 per cent have monthly incomes between TZS 51,000 and 200,000 (US$ 38-150) which qualifies them for housing microfinance as there are no pre-built houses in the market for this income range; and it is unlikely that those with monthly incomes below TZS 50,000 (US$ 38) can afford housing loans of whatever kind if only *current* income is taken into account[41]. A full 28 per cent of the adult population did not or could not make reliable statements about their personal income and have been included in the bottom income category.

Fig. 6: Income Pyramid and Access to Finance



* Adult population (16 years and older) equal to 21million in 2006
** Estimate from Finscope 2006
*** Includes some of those in the "uncertain"/ "Don't know" category

36 Obtained from FSDT, Tanzania.
37 The income pyramid combines, without any adjustments, personal income data from Finscope 2009 and access strand information from Finscope 2006 making it a rough approximation of the actual situation.
38 Defined as 16 years and above in Finscope 2006
39 This is an important qualification especially where lenders consider household income in their due diligence. Typically, they will take account of the borrower's income and a part of the income of the spouse.
40 A self-built starter house of 25 square metres would cost not less than TZS 5 million (US$ 3,760). Assuming a down payment of 10%, this would require a loan repayment of TZS 64,130 (US$ 48) if financed over a 15 year term at an annual interest rate of 15%; or around 32 % of income for those on the floor of that income group. See Matrix Development Consultants (2007)
41 Subsidies have not been considered as they are not a realistic option.

Another source, a survey of informal settlements in Dar es Salaam (N= 380), showed that up to 57 percent of households had monthly incomes below TZS 100,000 (US$ 75), again pointing to the difficulties of the majority to afford conventional housing financed with a mortgage loan[42].

If computations of affordability are based on *current* income alone, there is no doubt that the vast majority cannot afford any but the most basic shelter, built of temporary materials. But there is a valid argument in the literature that where strong rental markets exist, typically in the large towns, future income from subletting should be factored into assessments of affordability and the ability of households to improve their housing[43]. Evidence from upgraded settlements, such as Hanna Nassif[44] (about 4 kilometres from downtown Dar-es-Salaam), clearly shows that rental income is key to the ability of poor households to raise their housing standards, primarily through house extensions and improvements to the building fabric[45]. Houses on primary access roads have the potential for especially high incomes for their owners, as they can be used to accommodate businesses such as retail trading, hair dressing and tailoring which command a higher rent than residential use[46]. In adapting to conditions with limited credit, some landlords have asked tenants to finance house improvements upfront, exempting such tenants from paying rent until the initial capital outlay has been recovered[47]. This seems to be more common where the tenant intends to use the rented space for business purposes[48].

Low levels of income, even with future income taken into account, strongly suggest that effective demand for pre-built units is quite limited. If they have no access to finance, most households will continue to build in stages as they have always done, stopping when resources run out and starting again when resources permit. In the event, the principal challenge is to deliver financial products that would enable households to accelerate the pace of improving the existing informal stock and building incrementally on new plots.[49]

Housing supply: A rarely appreciated aspect of housing supply is that the existing housing stock provides the bulk of housing services. In the typical large town, the annual addition to the stock, in the form of new pre-built housing, is usually small relative to the existing number of dwelling units. It is therefore important to examine the quality of the existing stock for an understanding of its adequacy and how it is maintained and expanded through additional rooms. In particular, how households improve their existing housing stock is critical as it has implications for the tailoring of financial products to their needs. For instance, small repeater loans are better suited to poor households seeking to improve their houses, than are large “one-off” loans.

As the vast majority of the housing stock is in informal settlements it is on this stock that most attention should focus. We start with macro data on the quality of the housing stock. Next we look at the micro level for insights into how households maintain and modify this stock. Third, we discuss the supply of new housing through informal and formal channels. Finally, we look at public sector efforts to boost supply through land delivery as well as settlement upgrading.

Quality of the housing stock

Table 3 shows how the quality of the housing stock has changed over time, using as an indicator of quality the type of construction materials for floors, walls and roofs.

42 Nnkya (2007)
43 See, for instance, Jorgensen, N. (2008) and Sheuya *op. cit.*
44 Infrastructure in Hanna Nassif was upgraded under UN-Habitat’s Sustainable Cities Project and was funded by a number of donors including the World Bank and DANIDA. Upgrading assisted in tenure regularisation and installed trunk infrastructure including drainage and access roads.
45 Sheuya, S. A. (2007)
46 Sheuya, *ibid.* He points out that at the time of his study, the average monthly rent for a residential room was TZS 6,500 while the same room fetched TZS 12,000 if used for commercial purposes, nearly double the rent.
47 Precht (2005), in a study of 23 landlords in Hanna Nassif also documented this practice. Cited in Martin (2008)
48 Sheuya, *op. cit.*
49 See Annex 3 for a stylized depiction of the incremental housing process.

Table 3: Distribution of the housing stock by construction materials

	Dar es Salaam			Other urban			Rural			Mainland Tanzania		
	1991/92	2000/01	2007	1991/92	2000/01	2007	1991/92	2000/01	2007	1991/92	2000/01	2007
House floor												
Earth	14.5	6.7	8.7	44.6	38.3	37.1	90.8	86.6	83.1	79.2	74.0	67.0
Cement, tiles etc	84.3	92.4	90.4	54.2	61.1	61.9	8.0	12.5	15.6	19.6	25.2	31.8
Other	1.2	0.9	1.0	1.2	0.5	0.9	1.2	0.9	1.3	1.2	0.8	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
House walls												
Poles, branches, grass	3.4	0.9	1.5	5.7	5.3	4.6	23.7	19.3	16.9	19.8	16.0	13.0
Mud & poles / stones	15.1	5.2	4.7	16.3	13.1	10.9	27.7	21.8	22.0	25.3	19.4	18.2
Mud only	2.0	2.2	1.9	11.1	12.1	10.3	14.6	18.1	12.0	13.3	16.1	10.7
Mud bricks	12.0	3.2	1.3	37.6	30.8	22.6	24.2	23.5	26.4	25.4	23.3	23.2
Baked / burnt bricks	4.8	1.3	1.6	11.9	15.9	29.9	8.1	13.7	18.8	8.5	13.2	19.3
Concrete, cement, stone	62.1	87.2	88.3	17.1	22.4	20.7	1.5	3.0	3.1	7.6	11.5	14.8
Other	0.7	0.0	0.5	0.2	0.4	1.0	0.1	0.6	0.9	0.2	0.5	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
House roof												
Grass, leaves, bamboo	1.1	1.1	2.1	21.7	14.3	12.3	63.1	55.7	48.2	53.1	45.8	36.8
Mud & grass	0.2	0.7	0.4	1.7	1.5	2.6	12.8	12.5	9.2	10.4	10.1	7.1
Concrete, cement	3.4	3.6	1.2	0.7	0.5	0.0	0.1	0.0	0.0	0.4	0.3	0.1
Galvanised metal sheets	91.5	91.7	94.4	74.2	81.9	84.1	23.8	31.1	41.8	35.4	42.8	55.1
Asbestos sheets	0.1	0.5	0.3	0.0	0.3	0.3	0.1	0.0	0.2	0.1	0.1	0.2
Tiles	3.8	2.4	1.2	0.5	1.0	0.2	0.0	0.1	0.0	0.3	0.4	0.2
Other	0.0	0.0	0.3	1.3	0.5	0.5	0.1	0.5	0.6	0.3	0.5	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

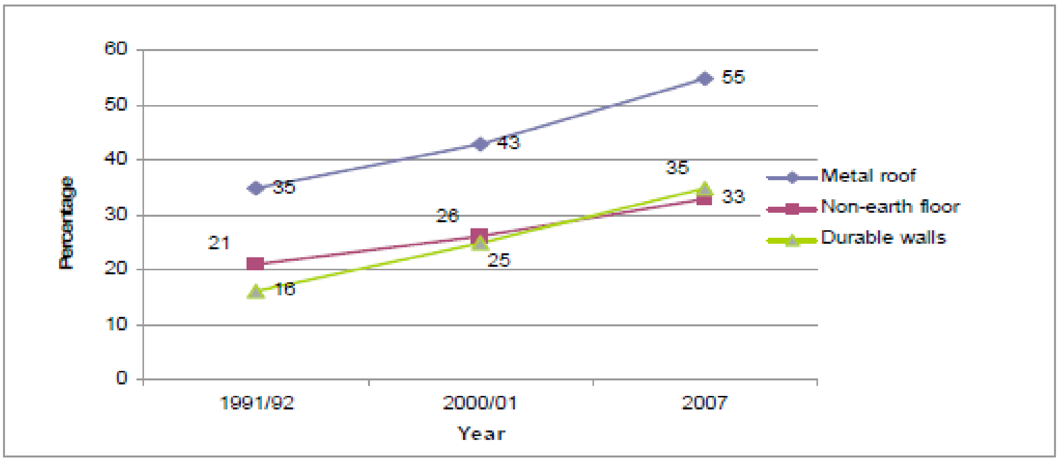
Source: NBS (2009)

The table shows that the quality of floors is best in Dar es Salaam where 90 per cent of the stock has cement and tiled floors. Walls built with permanent materials[50] are found in 90 per cent of dwellings; and the vast majority of dwellings (94 per cent) have permanent roofs of galvanized metal sheets. The quality of the stock has improved over time, marginally for floors and roofs, but substantially for walls as the proportion of permanent walls has increased from 62 per cent in 1991/92 to 88 per cent in 2007.

As for other urban areas, the proportion of building elements in permanent materials is lower than for Dar es Salaam: 62 per cent for floors, 50 per cent for walls, and 84 per cent for roofs. Improvements have occurred all round but are most notable for walls where the proportion has increased from 29 per cent to 50 per cent over the period. In the rural areas the use of non-durable materials is most common for floors (83 per cent earth floors). Around 60 per cent of walls and 57 per cent of roofs are built of temporary materials. As in the rest of the country, the use of durable materials has increased over time.

For mainland Tanzania as a whole, the rising trend in the use of modern materials points to the overall improvement of the housing stock (Figure 7).

Figure 7: Mainland Tanzania: Trends in the use of durable construction materials



Source: NBS (2009)

50 Taken to be concrete, cement, stone and baked/burnt bricks.

The use of durable materials in Dar es Salaam is surprisingly high for a town where the majority live in informal settlements but the 2002 population and housing census supports this evidence. Further corroboration is given by Nnkya (2007) who, in a quantitative study of three informal settlements, found that about 85 per cent of all the houses were built of sand-cement blocks, 90 per cent had a sand-cement floor and 94 per cent had a metal roof. In a parallel but qualitative study of the same three settlements Mathema (2007) reported that in two of the settlements much of the new construction is in concrete blocks. In the third settlement, walls were built with mud bricks pointing to the variability of house quality depending on poverty levels.

Micro-level information provides clear evidence that dwellings in informal settlements are built incrementally. In cases reported in Mathema (2007), the owners had built their houses in stages lasting several years and were still carrying out improvements. Sheuya (2007) presents evidence that some households start with temporary materials for the walls whilst others use durable materials even at this early stage. For those who start with temporary materials, subsequent house expansion is typically in durable materials. Whilst these findings are limited in scope they nonetheless provide insight into how households add to the housing stock in informal settlements and point to the demand for financial products for incremental construction. As we show later, borrowing from family and friends, besides savings and other sources, seems to play a critical role in the supply of housing services through stock improvements and new construction. This type of borrowing could eventually be replaced or complemented by housing microfinance.

New construction

Besides the existing stock and its expansion through incremental construction, housing supply has continued to grow as new construction sites open up. There are no readily available data on this type of supply but most of it is driven by salaried people who take out personal loans from SACCOs and the banking sector to buy the main inputs for house construction: a plot, building materials and labour. The CRDB[51] Micro Finance Company reported that a substantial part of SACCO loans to teachers is used for housing, especially in the rural areas. Furthermore, a study by Dar es Salaam Community Bank (DCB) showed that as much as 67 per cent of its consumer/salary loans had gone into housing.

"Housing: The study found that the bank has created a tremendous impact in the housing sector. Loans from DCB have been used for construction of houses or purchase of plots of land for the purpose of construction of houses. The loans used for housing purposes accounted for 67.7% of the total salary loans"[52]

New pre-built houses for sale are hardly available as supply is severely constrained by the small number of formal developers and the limited availability of mortgage finance. In Dar es Salaam, developers are active in the upmarket area of Bahari Beach (north of the city) and there is one private developer who has built up-market housing in the southern periphery of the city (Temeke Municipality); there also plans to start projects in Arusha and Mwanza. The National Housing Corporation, a parastatal, builds a limited number of middle and high income houses each year, not exceeding 100[53].

Some of the pension funds have invested directly in housing, typically for formal workers. In 2003, NSSF developed 194 houses in Kinyerezi, Dar es Salaam and has started to develop another project of 300 houses in the same city. Loans for houses in the latter project will be repaid over 15 years. The Public Service Pension Fund, starting in 2010, has plans for 200 houses in Dar es Salaam and 50 each for Morogoro, Mtwara, Shinyanga and Tabora regions.

The Parastatal Pension Fund PPF has also ventured into housing and in 2007 developed a project in Kiseke, Mwanza, comprising 580 houses. Members of the Fund bought 365 of these houses after bidding for them. The remainder were reserved for the general public but the uptake has been slower than expected primarily because the Fund raised the selling prices to take account of rising construction costs.

Land legislation and land delivery

Until the adoption of the Land Act in 1999 land tenure in Tanzania was difficult to manage, particularly in urban areas.[54] Land was held to have no value and there was no formal market to mediate transactions. This led to an

51 Cooperative and Rural Development Bank
52 Milinga, A. (2006)
53 Interview with the Research and Planning Manager.
54 During Ujamaa, private land rights were nationalized. But later, as Sulle et al (2009) point out "The Land Act and Village Land Act, which came into force on 1st May 2001, provide the overall framework for land rights to be exercised and administered. The laws represent a

informal land market. The 1999 Act brought clarity with all land being held by the state and allocated on a leasehold basis. An official land market now exists backed by established property rights[55]. One important advance was that women's land rights are now protected which was not the case previously.

Government has taken other legislative measures to facilitate housing supply and to address the view of conventional financial institutions that land law is weighted in favour of the rights of house owners in the event of default.

- The first is the enactment of the Mortgage Financing (Special Provisions) Act (2008), which repeals certain sections of the Land Act in an effort to streamline the use of land as collateral for mortgage loans. The Act has not yet been brought into operation and although banks feel that it marks an important departure from previous legislation its effectiveness will need to be tested[56].
- The second measure is the enactment of the Unit Titles Act to permit the issuing of sectional or condominium titles for apartments, a process hitherto considered difficult by the banking community[57]. It has been argued that this act will improve upon the present method of selling apartments through subleases[58].
- Third, land leases in a "20,000 plots programme" which started in 2002, are being provided for an initial 33 years which can be reviewed (Box 2)[59]. A separate 'Formalisation of Property Rights in Unplanned Urban Settlements' programme provides residential licences for five years (revised from the original two years) when the areas are unserviced; and when serviced and surveyed, leases of either 33, 66, or 99 years will be considered. The extension of the term of these licences from two to five years will reduce the costs of renewal every time the licences expire, in addition to enhancing security of tenure. Banks are reported to have given out personal loans on the strength of the two-year licences[60] and the longer duration should prove even more attractive.

In line with its enabling approach, Government does not have a capital budget for public housing construction[61]. But it contributes to housing supply in other important ways. One is a 20,000 residential plots programme, which has now been rolled out to other towns after initial implementation in Dar es Salaam. Under this programme, land is parceled out and the surveyed plots allocated to individuals. Apart from unpaved roads, no other services are provided. A major constraint, especially in Dar-es-Salaam, is that the majority of the plots are in peripheral city locations with little access to services such as water (Box 2).

Before the launch of the programme, there was a serious shortage of new residential plots. In Dar es Salaam, for instance, the plots allocated between 1990 and 2001 were a mere 5 percent of the applications received[62].

Upgrading community infrastructure

The Community Infrastructure Upgrading Programme (CIUP) in Dar-es-Salaam is laying the foundation for better shelter by improving infrastructure services in informal settlements. Programme implementation started in 2005, with financial assistance coming from the World Bank, government and municipal authorities. Each household contributes TZS 30,000 (US$ 22) towards the project, collected about a year ahead of upgrading. A second phase is planned for Dar es Salaam early in 2010 and a third phase will bring in additional towns into the programme, notably Dodoma (the capital city), Arusha, Mwanza, Tanga and Zanzibar[63]. A part of the current

---

substantial reform on the prior tenure framework that had been in existence since 1923. The acts retain ownership ('radical title') in the hands of the President as a trustee for all Tanzanians, making land tenure a matter of usufruct rights as defined by various leasehold periods and conditions. An important reform in the Land Act makes 'customary rights of occupancy' legally equivalent to any 'deemed' or 'granted rights of occupancy'.

55 Residential licences, now given for five years , can be converted into leases of at least 33 years after a cadastral survey.

56 Interview with the Registrar of Titles.

57 For instance, at a 2003 workshop on housing finance, Azania Bank Corporation had reported that it had found it difficult to process applications for housing loans from workers living in blocks of flats with one title to land, and called for the enactment of a condominium law.

58 Interview with Registrar of Titles.

59 Although it started out with the aim of providing 20,000 plots, the programme has now delivered around 40,000 plots. (Interview with the Principal Planner at the Ministry of Lands, Housing and Human Settlements Development).

60 Butler *et al.* (2007)

61 Interview with the Director of Housing.

62 UN-Habitat et al. (2003)

63 Interview with CIUP coordinator at Dar-es-salaam City Council.

CIUP loan, assigned to the Ministry of Lands, Housing and Human Settlements Development, will finance the cadastral survey of upgraded areas so that formal plot titles of 66 years can be issued.

Box 2: The 20,000 plots project [64]

The 20,000 plots project was initiated by government in Dar es Salaam (it is now working in Mwanza and Mbeya) in 2002 following a realisation that at least 70 per cent of the population resided in informal settlements, i.e. without formal tenure and many without basic services. The intention was to curb squatting and corruption in land allocation and to reduce poverty. The metro population is growing fast and is expected to reach 5.12 million by 2020. Compared to many other cities in Africa many parts of Dar es Salaam are virtually rural.

The lands ministry identified land (located in various sites) with a low density of occupation mainly under customary tenure. They negotiated with land 'owners' [65]to sub-divide the land in plots of varying sizes ranging from 600 to 2,000 square metres. Residents were allocated a plot where they resided as resettlement was seen as a last resort. Compensation was provided for buildings and productive assets (e.g. trees, crops planted or inherited by the owner) on the land but not for the land itself. This exercise was funded by the Treasury.

Applications were invited for plots to be allocated with the process managed by each of the municipalities making up Dar es Salaam and there has been a large demand. New applicants have to pay a fee on receipt, and TZS 4 billion (USD 3 million) had been recovered in this way by 2007.

Besides plot demarcation and allocation, no infrastructure services apart from basic roads are provided. Observation and anecdotal evidence suggest that while sub-division, allocation and issuance of 33 years leases have been carried out swiftly actual development has hardly begun with many sites still having a rural appearance with sporadically sited half-completed houses.

The reasons for slow development are as follows:

- The sites have no infrastructure and it is difficult to construct and occupy without water (for construction and for subsequent occupation). The water service provider is reluctant to provide water until there is a critical mass of consumers; and the electricity provider has the same policy;
- There is no system of affordable housing finance to enable the new plot owners to build, although those with salaries can and do take out small personal loans from banks and use them for construction; and,
- The sites are remote from the centre of Dar es Salaam with poor transport links. Working households find these localities unattractive to live in and since the rental market is very thin, letting to gain income for loan repayment is severely constrained. Households retain ownership of these plots as they take them to be an important means of wealth accumulation.

There are also some issues of attitudes and expectations. It is reported that as the plots became available many took advantage of the offer without expecting to develop even in the same generation. Again, many are constructing houses of a size (e.g. 80 – 100 square metres) that they cannot financially afford within a conventional building period. The result is half-completed houses with grass sprouting from them.

Source: Ministry of Lands, Housing and Human Settlements Development

Housing finance

An historical perspective

Since the 1960s, there have been a number of housing finance initiatives by the public sector but outcomes have been disappointing. The most notable effort was the establishment of the Tanzania Housing Bank (THB) in 1972. Weighed down by management problems and a poor loan recovery record[66], the bank was wound up in 1995 after only two decades of operation. Tanzania has since then not had a formal housing finance institution. An unfortunate legacy of the collapse of THB is that a part of the banking community still looks upon lending for housing with a measure of scepticism.

64 Source: Principal Town Planner, Ministry of Lands, Housing and Human Settlements Development.

65 Land is deemed to be held by the President as a trustee for all Tanzanians. See, for instance, Sulle, E. and Nelson, F (2009)

66 The bank's loan recovery rate was 22 percent. See UN-Habitat et al. (2003)

In the 1960s and 1970s, Government supported the formation of housing cooperatives as vehicles for mobilizing savings and issuing housing loans. In particular, such cooperatives were expected to grant loans to beneficiaries of sites and services schemes at one time popular in Tanzania and other developing countries. But by the 1980s, the earlier enthusiasm for housing cooperatives had waned.

The National Housing Corporation, already referred to, started operations in 1962, acting as both developer and financier. It was initially established to guarantee or provide finance to local authorities and individuals for the construction and improvement of buildings and approved housing schemes[67]. The Corporation also offered long-term repayment terms of 15-25 years for tenant purchase[68] schemes but abandoned this approach due to poor loan recovery. Their current focus is to build and sell middle income houses, requiring a 50 per cent down payment from purchasers and repayment of the balance in one year. A programme in the pipeline aims to service land for subsequent sale to private developers.

A Revolving Housing Loan Fund for civil servants has had a chequered history. First established in 1965, it was phased out in 1972 and its portfolio transferred to THB. Although the fund was re-established in 1995 upon the failure of THB, its impact has been modest.

Past financial reforms, starting in the early 1990s, have laid an adequate basis for the country to build a viable housing finance system. As Merrill and Tomlinson (2006) observe:

"*Tanzania is reasonably close to being able to develop both formal housing finance and microfinance for housing. Many of the fundamentals are in place: an improved macroeconomic and regulatory environment; a restructured banking sector; adequate liquidity in pension funds and in many of the banks; and recent efforts to strengthen the capital market. There are major constraints, however, which are particularly serious with regard to the legal framework, titling and registration, and settlement planning and infrastructure provision. These problems are important, and a major barrier to housing lending, particularly in the formal sector, as there is not a coherent mortgage law*[69] *to support collateralised mortgage lending. Consumer lending by banks, some of which is for housing related purposes, will go forward, but banks remain unwilling to engage in much longer-term mortgage lending, thus constraining access and affordability".*

The Mortgage Financing (Special Provisions) Act (2008), already referred to, addresses the legal problems of mortgage lending that Merrill and Tomlinson (2006) drew attention to.

Demand for housing finance

Macro data, already presented, show that there has been a marked improvement in the quality of the housing stock. This raises the question of how these improvements are financed, especially for walls in urban areas, whose quality has improved substantially over a fifteen-year period. Although there are no systematic data on how improvements are financed nationwide, useful inferences can be drawn from the limited evidence available. Results from a recent study of informal settlements in Dar es Salaam concluded that "*Though almost all houses were financed through household savings, if loans were available, the majority of households would borrow money to buy, or preferably build a house"*[70]. There is also evidence that personal savings are usually the main source of finance for starter houses in informal areas i.e. no borrowing takes place at this early stage in the construction process[71]. But subsequent improvements in permanent materials are financed from rental income and informal sources. It is reasonable to conclude that appropriate financial products, were they available, would be in high demand as they would help households to accelerate the construction process, and thus bring forward income streams from subletting. Moreover, households would stand better prospects of making early decisions on the optimal mix of savings and housing loans.

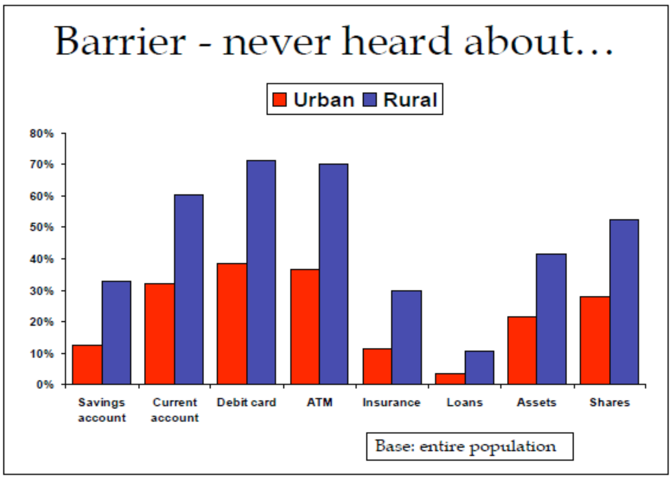
Demand is suppressed by low household incomes and the lack of appropriate financial products since the financial sector (including microfinance organizations) does not yet have good market knowledge of housing microfinance, particularly in terms of the associated risks and returns. But it is interesting to note that while

67 UN-Habitat (2005)
68 In tenant purchase projects the title is conveyed to the purchaser only after the loan has been repaid.
69 The Mortgage Financing (Special Provisions) Act (2008) has been enacted since this observation was made.
70 Nnkya (2007)
71 Sheuya *op. cit*

financial literacy among households is not very high, the majority understand the concept of loans even in rural areas (Fig 8).

As for mortgage lending, demand is restricted to the small number of high income individuals who can afford to buy pre-built dwellings, either new or in the resale market. Figure 6 showed that a mere 3 per cent of individuals are in the highest income bracket (more than TZS 201,000) per month (US$ 159); even for this group, as argued earlier, only a fraction can afford pre-built housing on standard lending terms.

Figure 8: Measuring financial illiteracy



Source: Finscope 2006

Supply of housing finance

Because Tanzania has a very small formal housing finance sector, unsecured[72] finance, often informal, is the main source of funds (other than savings) for the majority who build incrementally. Different types of unsecured housing finance can be distinguished: structured housing micro-finance, which is at a very early stage of development, offered by semi-formal organizations[73]; salary-based loans from the banking sector; and loans from family and friends, and other informal sources such as *Upatu*[74]. As for mortgage finance, only a few commercial banks offer this product, the main ones being Commercial Bank of Africa and Azania Bank. This type of lending has largely been suppressed by land legislation that, before the recent repeal referred to earlier, made foreclosure extremely difficult. The lack of appropriately priced long term capital has also played its part in reducing mortgage lending.[75]

Structured housing microfinance

In both urban and rural areas it is rare to find organizations that provide housing microfinance as an explicit product. The notable exceptions are WAT[76]-SACCOs and Habitat for Humanity in urban areas (Box 3), and the Presidential Trust Fund and the Tanzania Gatsby Trust[77] in rural communities.

Box 3: WAT-SACCOS and Habitat for Humanity

WAT-SACCOS: WAT-SACCOS is a savings and credit cooperative society established in 1998 to provide financial services to low income households. Since then it has offered micro business loans using the standard solidarity group model. For group loans, borrowers must co-guarantee each other, besides meeting other loan conditions. The business loan portfolio has performed well, and in recent years the portfolio at risk has dropped from 26 per cent at the end of 2006 to 5 percent in December 2009. This improvement in portfolio performance is attributed to better loan appraisal, training of members ahead of borrowing, and more intensive follow-up by credit officers[78].

72 In the sense that land is not used as collateral. However, collateral substitutes such as chattels have been used in some cases.
73 This definition follows Fincope 2006. The category includes SACCOs and larger MFIs
74 These are made up of individuals whose pooled contributions are handed out to members on a rotational basis.
75 The World Bank, in a 2009 Concept Paper, pointed out that potential long-term funders, such as pension funds, use speculative yields in their pricing, making their finance unaffordable by potential borrowers. Pension reform is expected to address this problem,.
76 Women's Advancement Trust
77 Mainly in Zanzibar
78 Interview with CEO.

Whilst the number of members increased slowly in the early years, reaching only 34 by 2001, membership saw explosive growth after WAT-SACCOs joined the *Dunduliza* network. By the end of March 2009, WAT-SACCOs had 7,639 members, making it the largest cooperative in the network. Dunduliza is a support organization which, with DID[79] assistance, builds the capacity of members in its network[80]. With the consent of its members, Dunduliza has close oversight of member operations including employing their staff and installing management information systems.

WAT SACCOS has now expanded its remit to include housing microfinance. It is piloting a housing microfinance project in Dar es Salaam's informal settlements, with technical support from Rooftops Canada and NBBL of Norway. The Financial Sector Deepening Trust (Tanzania) is meeting the costs of technical assistance in addition to availing a guarantee fund to enable WAT SACCOS to borrow commercial funds.

Over a three-year period, the pilot aims to finance 753 micro loans totaling TZS 494 million (US$ 373,000). The main project components are:

- Leveraging commercial capital using a loan guarantee fund;
- Providing technical assistance for loan product development and capacity building;
- Financing local operations during the period of scaling up; and
- Conducting appropriate research and analysis to support the programme.

Specific housing products include:

- Purchase of land;
- Land registration;
- Connections to services (e.g. water and sanitation, and electricity)
- Incremental house construction; and
- House renovations.

An affiliate organization, WAT, acts as the technical support body, mobilising potential borrowers and supporting programming and construction activities. For these services, WAT receives 4 per cent of the loan amount for work in upgrading sites and 5 percent for new construction. WAT started in 1989 and was instrumental in the creation of WAT-SACCOs. It used to run a Shelter Loan Revolving Fund, which was phased out upon the establishment of WAT-SACCOs.

Substantial effort has gone into creating systems to support loan origination and management, including the preparation of operational handbooks. For instance, a loan officer handbook has been prepared which provides a step-by-step guide for lending activities: conducting an initial survey to establish potential outreach and promotion; loaning process; default management; group dynamics; and management of savings. Moreover, the handbook sets out the "Do's and Don'ts" of a loan officer and defines the most commonly used terminology in WAT-SACCOs housing micro-finance services. A loan policy document has also been prepared to serve as a guide for WAT-SACCOs staff members as they implement the pilot project.

To qualify for a loan, applicants will be required to meet a number of conditions:

- have a predictable income from a micro-enterprise, employment and other demonstrable sources;
- have owned a business for at least a year but if the borrower is employed the term of the loan should not exceed the employment contract;
- be resident in a specified locality approved by WAT-SACCOS. For example, the borrower could own and operate businesses anywhere in Dar es Salaam but the house/land should be within a predetermined operational area of the pilot;
- for group lending, the group must be recognized by the local authority at ward level. All of the group members must guarantee each other by means of a joint undertaking and commitment to repay. Member savings serve as a guarantee and, in the event of non-payment, would be forfeited after all other means of recovery have been exhausted;
- at least 2 guarantors for the individual housing loan;
- not be close relatives or members of one family within the same group;
- for a repeat borrower, a good repayment history in previous loan cycles;
- own property with secure tenure such as the five-year residential licences granted to owners of upgraded areas;
- written approval of the spouse;
- 2 months of savings with WAT-SACCOS prior to the loan application, equivalent in aggregate to at least 15 per cent of the loan amount, and shares of 10 per cent of the loan amount. These amounts must be kept on deposit until the loan is repaid;
- for individual loans, the security to be at least 150 per cent of the loan advanced. The security includes household assets, land, savings and other alternative forms of security;
- agree to abide by the rules and regulations of the group;
- abide by all WAT-SACCOS policies.

---

79 *Development International Desjardins,* the overseas arm of the Desjardins credit union movement that originated in Quebec, Canada
80 Dunduliza (SACCOS Network) is a company with shareholding held by member SACCOs. It was created with support from the DID

The performance of the pilot project will be monitored closely and evaluated every year in order to draw out the lessons learnt. Housing microfinance will be extended to other SACCOs in Dunduliza's network subject to the outcomes of the pilot.

Habitat for Humanity Tanzania: HFHT, a Christian non-governmental organization, is registered by the Registrar of Societies under the Societies Ordinance (CAP.337). It is also compliant with the Non-Governmental Organization Act, 2002. HFHT has recently introduced a housing microfinance product branded as *Makazi Bora*[81]. This is a home improvement loan product tailored to meet the needs of incremental building, targeting urban and peri-urban households with incomes of US$1- US$ 5 per day. Loans are meant for those who have already built part of their houses but found it difficult to complete them because of the lack of finance. Thus, loans will not be used for starting new construction or building complete homes.

A range of house improvement needs will be addressed: building or replacing a roof; finishing the house to better standards e.g. by replacing an earth floor with a cement screed, or plastering walls; building additional rooms for rental or business purposes; repairing or upgrading building components such as doors and windows; and building improved pit latrines and other structures such as outdoor kitchens.

Entry into housing microfinance marks a complete re-engineering of HFHT's housing strategy, moving away from the previously rural-focused housing programme which proved unsustainable: the programme experienced high portfolio losses and housing delivery over a 25-year period was minimal. Financial sustainability is a key feature of the new lending programme, without which scaling up would not be possible.

The new product is now being piloted in Temeke municipality, the poorest of Dar es Salaam's three municipalities. Piloting will be for a year, followed by an evaluation and rolling out to other localities. Over a four year period, 2009-2012, the project seeks to reach 4,000 clients. After *Makazi Bora* proves to be commercially viable, HFHT does not intend to substantially expand its retail operations. Instead, it will take up wholesale lending to other institutions, such as SACCOs, as a strategy for reaching clients across the country and mainstreaming affordable housing finance. HFHT is convinced that the regulatory environment, the current housing and microfinance policies, and the market are all favourable for housing microfinance operations.

Loan security includes chattels, personal guarantees, land and other immovable assets. Individual loans will be for a term not exceeding 24 months and will be in the range of TZS 200,000 to 1,500,000 (US$ 150 – 1,130),only enough to buy building materials for house completion. HFHT point out that "*A two-tier interest rate is applied, depending on the outcome of the loan use verification. Loans that were diverted and not used for their intended housing purpose attract a 5% flat monthly interest. Loans that are verified as having been used for the proposed housing purpose attract a 2.5% monthly interest (flat)*". Closing costs include a non-refundable registration fee of TZS 20,000 (US$ 15) and insurance against injury or death at the rate of 1 per cent of the loan amount. A cash collateral of 8 per cent is also required.

Clients receive pre-loan construction technical assistance but are expected to pay fees for this training, lasting a day. Between July and November 2009, 300 clients obtained loans and no defaulting had been reported[82].

Venturing into rural housing finance

The literature offers little guidance on the feasibility of finance for rural housing. The traditional assumption has been that rural housing is not a priority and that it should be tackled indirectly through general economic development as well as direct investments in infrastructure services such as clean water and safe sanitation. Habitat for Humanity used to support rural housing in Tanzania but poor portfolio performance compelled them to redirect their lending to urban and peri-urban areas. But PTF has introduced a housing finance product for rural areas, "piggybacked" on microenterprise lending (Box 4).

Box 4: The Presidential Trust Fund

PTF is a microfinance institution that was established in 1984 to offer business credit. It was accorded trust status in 1988. Although funded by the Office of the President, PTF is expected to operate as a commercial organization with little or no political interference. Indeed, most of its board members are drawn from the banking sector. The fund has 19 branch offices in the country, 23,000 clients and a loan portfolio of TZS 4.4 billion (US$ 3.3 million).

PTF has five types of business and social loans[83] but more recently it has introduced a financial product for rural housing. Housing loans are granted for four purposes: to build a complete house; to improve an existing dwelling; to support

81 Translates roughly as "decent housing".

82 Interview of Programme Manager

incremental construction (including plot purchase), with repeater loans financing different stages of the house; and to finish an incomplete house. This housing finance product has already been piloted and is now being rolled out. It is offered only to existing clients with a successful record of utilising business loans. This is meant to ensure that there is an income stream to meet debt service for housing loans. A client may not take out more than two loans at a time; and a borrower must choose between education and housing loans as these are considered social loans that do not generate an income.

The interest rate on housing loans is 15 per cent (flat rate), a half of the rate for business loans. A fee of 1 per cent on the loan amount is charged to meet some of the costs of technical assistance, provided mainly by government technical staff such as engineers. Technical assistance covers advice on how to select a builder, and involves a visit by a government engineer. The loan term is 6-8 months for incremental construction and up to 36 months for other housing loans. Loan amounts range from TZS 200,000 to TZS 15 million (US$ 150 -11,300), with the smaller amounts meant for plot purchase.

Only TZS 200 million (US$ 150,000) has been disbursed so far, primarily for rural housing. There have not yet been any loans in urban informal settlements because of the uncertainty surrounding security of tenure. PTF pointed out that its housing loans are very popular, especially among women who feel that better housing improves their social status. A major challenge is that there is not enough capital to meet demand as the Fund depends largely on a limited subvention from the presidency.

Sources: HFHT and PTF

Salary-based loans

Salary-based loans are frequently used for home improvements and incremental building, and are readily granted by banks and SACCOs because they are re-paid via payroll deductions thus containing credit risk. As lenders do not always maintain precise records or follow up loan use the actual volumes are not known in any detail. The experience of the Dar es Salaam Community Bank has already been noted.

CRDB offers a salary-based loan of up to 6 years at 15-16 percent but there is little information on loan volumes. A rough estimate is that out of a personal loans portfolio of USD 10 million, only a small number of loans – about 190 – had gone into housing[84].

Loans from family and friends

Loans from family and friends are the most important source of borrowed funds (Figure 9), which is not surprising for a country that is largely unbanked. At the same time, the data point to the relatively modest role of grassroots organizations, such as savings and credit cooperatives, as sources of loan finance. Particularly interesting is the fact that building or improving a house is one of the popular uses for borrowed money (Figure 10). Taken together, these two sets of data suggest that money borrowed from family and friends, besides savings, plays an important role in financing the housing stock improvements examined earlier in this report.

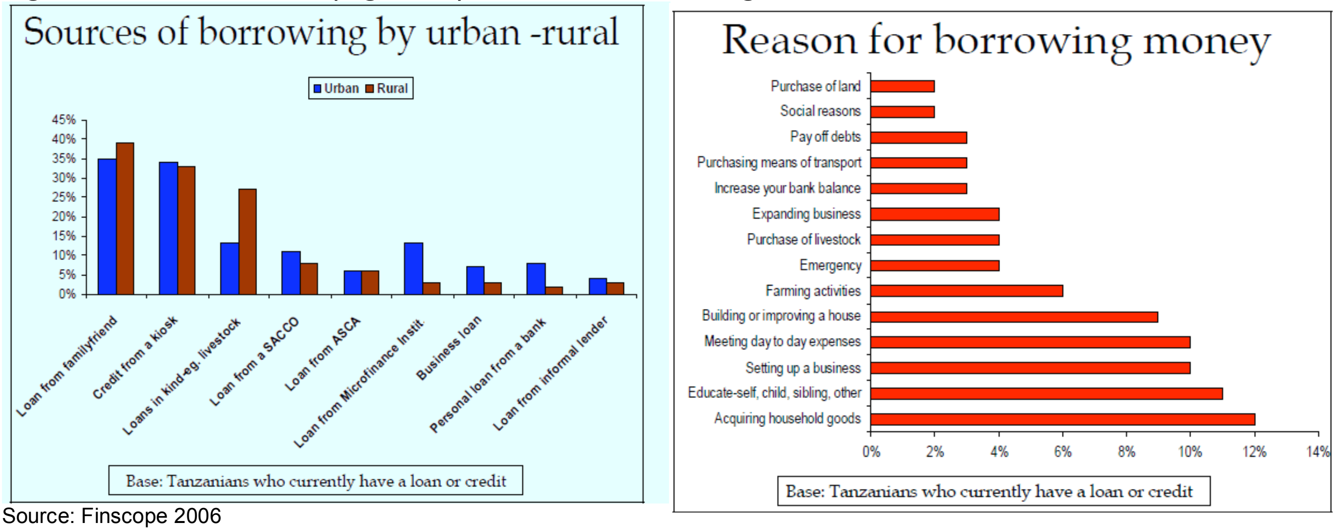
The wider microfinance sector

Tanzania has a well-developed microfinance sector consisting of both domestic and international micro-lenders. These organizations operate within the National Microfinance Policy of 2001, formulated after a government report in 2000 on *Optimal Modalities Towards Increasing the Access of the Poor to Microfinance Facilities.*[85] The welfare of microfinance institutions (MFIs) is catered for by the Tanzania Association of Microfinance Institutions, which works as an advocacy body for the sector.

MFIs have generally not ventured into housing microfinance but their interest in this product is growing. Because of this interest, and their outreach and knowledge of lending to the poor, microfinance organizations provide a viable institutional platform for introducing and scaling up housing microfinance. What follows is an overview of the sector, highlighting the key players and their lending activities.

83 These are solidarity loans, salary loans for rural households, a loan product financed by a presidential endowment fund, education loans, and a special loan product for police families.
84 Martin (2008)
85 Merrill and Tomlinson *op. cit.*

Figure 9: Sources of, and (Figure 10) reasons for borrowing: urban and rural



Source: Finscope 2006

There are three types of microfinance providers: commercial banks that are regulated by the Bank of Tanzania; microfinance institutions that are not regulated by BOT; and member-based organizations such as SACCOs and community-based organizations (CBOs).

Commercial banks: There is a trend for commercial banks to venture into microfinance at the wholesale and retail levels[86]. The three main banks that offer microfinance are the National Microfinance Bank (NMB), CRDB, and Akiba Commercial Bank (ACB). The combined branch network of these banks is substantial.[87] Regional unit banks, such as the DCB are also important players.

MFIs: These are typically financial NGOs that are not allowed to mobilize deposits from the public and their core business is to offer credit products. Examples include FINCA[88], PRIDE[89] and PTF, the last of which was described above. The following profile of FINCA, reproduced from Martin (2008), looks at their loan products and the prospects of venturing into housing (Box 5).

Box 5: FINCA

The Foundation for International Community Assistance (FINCA) was established in 1998. FINCA was started with a capital injection of US$1 million from USAID and has had a variety of donors over the years, including DFID. In addition to raising funds from donors its other source of funding is its members 'voluntary savings' disguised as 'loan insurance', which is then used as collateral for loans.

As of September 2005 FINCA had organized 1,536 groups made up of 45,608 clients. Its total outstanding loan portfolio is $7 million, with an average loan size of $477. FINCA initially started with a rural focus but now operates in Tanzania's peri-urban and urban areas, using a 'village banking method' that was developed by its founder. This method places a significant degree of responsibility and autonomy on members in running their group banks. It also places a great deal of emphasis on the community as well as the individual.

Loan products. FINCA lends to groups of people who come together to guarantee each other's loans for micro-enterprise. The group members (98% women) work together to ensure that their bank runs smoothly. Most of the individuals that take out loans operate a licensed business; however, FINCA also lends to individuals with informal incomes. Borrowers must save $1 per week for 5 weeks. FINCA's repayment rate is 98% on time. Loan products include individual micro-enterprise loans, for example a loan of $100 at 30% per annum for 12 – 24 months, and group micro-enterprise loans, such as a loan of $100 at 40% per annum over 24 months. They also have developed a micro-leasing option and can provide working capital in larger amounts than the micro-enterprise loans.

Housing. FINCA is considering providing larger (than normal) individual loans to people residing within group schemes that want to build a house over time. The loan would be underwritten based on an income stream rather than the property being used as the collateral. While considering this product, FINCA also acknowledges that it is already unable to meet its current demand for loans and therefore at this point in time does not have the necessary funds required to fund bigger loan

86 See for instance Triodos Facet (2007)
87 Triodos Facet (2007) *ibid.*
88 Foundation for International Community Assistance
89 Promotion of Rural Initiative and Development Enterprises

products. FINCA's average loan size is currently $150, while a housing loan would require up to $2,000. Moreover, FINCA does not intend foregoing the smaller loans required by the poor, to ensure funds are available for the larger loans required by better off individuals wanting to build a house.

Future Plans. Like PRIDE, FINCA is steadily working towards commercial viability and is moving away from relying on donor assistance. Moreover, like PRIDE, it intends transforming into a licensed, prudentially regulated, microfinance institution, operating as a company limited by shareholders. With this move it hopes to attract investors and to mobilize additional resources through savings (not demand) deposits, as well as being able to provide larger loan products.

PRIDE is reported to have shown interest in introducing a financial product for housing[90]. It is the largest MFI in the country, with 69,000 clients and a network of 28 branches that cover most of the country. As of July 2005 it had disbursed 611,500 loans worth a total value of $12 million. NORAD has provided capital to cover operational costs and credit. This source is supplemented by members' 'voluntary' savings.

Member-based organizations: SACCOs, of which there are around 3,200[91], dominate this category and are some of the oldest micro-lenders. They have generally not been well managed and their supervision by the Registrar of Cooperatives is weak[92]. In particular, they have over the years been beset by political interference and capacity problems. But there are some SACCOs that are competently run, such as those in the Dunduliza network.

Links between micro-lenders and institutions that wholesale finance

It has been pointed out that besides their own retail lending, commercial banks in the country act as sources of wholesale finance for micro-enterprises. These loans are made out to intermediaries or micro-lenders such as NGOs which in turn offer retail loans to their clientele. Although this approach has not yet been applied to housing microfinance, it is being pursued by WAT-SACCOs on the strength of a guarantee fund from FSDT. It is expected that this type of credit enhancement will encourage lenders to support housing microfinance. Oiko Credit, in particular, has shown keen interest in housing microfinance (Box 6)

Box 6: Oiko Credit

Oiko Credit, an organization founded in 1975 by the World Council of Churches, is a potential source of wholesale funds for housing microfinance. Oiko has its headquarters in the Netherlands and an East African regional office in Nairobi. It provides wholesale loans for income generating projects with a social impact. Another avenue of support is equity participation for a limited period.

Loans can be made for up to 6 years if in local currency and 10 years if in hard currency. Interest on local loans in Tanzania is in the range of 11-15 per cent per year, generally pegged to the treasury bill rate plus a risk premium. Hard currency loans are restricted to projects that generate foreign currency to avoid exchange rate risks. Oiko has a non-housing portfolio of US$ 15 million in Tanzania and substantial growth is projected for 2010. Portfolio performance has been excellent, with the portfolio at risk standing at less than 1 per cent.

To be eligible for a loan, borrowers should:
- have been operational for 3 years, with a positive income statement for at least 1 year;
- possess the necessary legal documents on incorporation; and
- pass a credit assessment test.

Oiko can provide wholesale finance for housing for the poor and has already received funding proposals from both WAT-SACCOs and PTF.

Financial engineering

Financial engineering to respond to the needs of the poor will continue to be an important area of research. One interesting case is a housing project being developed on land owned by Tanzania Women's Land Trust (TAWLAT), a body whose members comprise groups of low-income women. UN-Habitat has provided a cash guarantee of US$ 100,000, deposited with Azania Bank, with the expectation that the bank would issue loans to

90 Martin (2008)
91 Finscope 2006
92 Triodos facet (2007)

a total value of US$ 400,000 to demonstrate the feasibility of using guarantees to leverage funds from the banking sector. Project implementation started only recently, after the project concept was modified[93], and there is some ambiguity as to whether leveraging will work as originally intended. Besides the cash guarantee, which would be called only as a last resort, Azania Bank's exposure to risk would be contained through the land title, savings of the women's groups and the group members' co-guarantees[94]. In other words, in the event of loan defaulting, these last three "securities" would be utilized to pay off loans. To avoid the problem of "moral hazard" [95] information on the cash guarantee is not divulged to borrowers.

In a different context, a housing microfinance pilot proposed in a report for AUHF examines how to reduce credit risk for commercial lenders. The report argues that conventional guarantees might not be widely replicable and consideration should be given to community-based guarantees. Such guarantees would be funded by a levy on monthly loan instalments – 5 per cent is suggested – and the fund so built up would eventually be refunded to borrowers after adjustments to take account of interest earned and losses arising from defaults. The report also recommends loan loss provisioning by commercial lenders above the statutory requirements of BOT. An interesting point is a recommendation regarding the order in which various securities should be surrendered to the commercial lender in the event of default (Box 7).

Yet another interesting case of financial engineering is TAFSUS[96], although it is at an early stage of development. TAFSUS is being set up by UN-Habitat's Slum Upgrading Facility (SUF) as a vehicle for leveraging commercial funding on the strength of guarantees. The body would enable micro-lenders, such as NGOs and CBOs, to secure wholesale funding.

The TAWLAT/Azania pilot, the pilot proposed in the AUHF report, and TAFSUS all point to the importance of financial engineering to suit the needs of poor households.

Box 7: Sequencing the surrender of securities

The AUHF report recommends that in the event of default, securities be surrendered in the following order:

"The community-based guarantee fund: Although it would probably have been fairer to attach the individual's savings account first it is suggested that the community fund be attached first to ensure that peer pressure and support is mobilised as early as possible in the case of delinquency.

Individual savings account: This account is also intended to provide a bit of flexibility and participants should be encouraged to overpay slightly or continue to make a modest monthly deposit as protection against future erratic payments.

Loan loss provision account: The bank will have to make sure that the definition of a default is clear and that it constitutes an irrevocable default before writing it off against this account.

Movable property: The use of movable property like TVs, furniture etc has proven very successful in the normal microfinance business and contracts should ensure this right is also vested in the bank

Immovable property"

Source: Martin (2008)

Secured loans

Only a few banks issue mortgage loans. Azania Bank and the Commercial Bank of Africa (CBA) are some of the main mortgage lenders, with the latter bank reported to have the largest mortgage portfolio in the country, though small by developing country standards (Box 8).

Box 8: Mortgage lending by Commercial Bank of Africa

CBA started mortgage lending nearly two years ago and has issued loans amounting to TZS 5 billion (US$ 3.8 million). Another TZS 2 billion (US$ 1.5 million) worth of loans has been approved but not yet issued. The bank claims to have the largest mortgage portfolio in the country. Lending has so far been confined to Dar es Salaam but there are plans to venture into secondary towns such as Arusha, Mwanza and Mbeya.

93 For instance, a contractor has now been hired to carry out construction whereas the original idea was to use TAWLAT's women groups to build; this proved impracticable. Interview with UN-Habitat's Programme Manager
94 Co-guarantors would be required to meet loan obligations in the event of defaulting by a borrower.
95 The well-known problem of 'moral hazard' is familiar to financial regulators and policy makers: if a guarantee removes too much risk, the borrower (lender) will tend to neglect loan repayment (loan recovery).
96 Tanzania Financial Services for Underserved Settlements

Most of CBA's loans are in the TZS 100 million to TZS 350 million (US$ 75,4500 – 264,000) bracket. Loans are for 5-15 years at an interest rate of 21 per cent a year on a reducing balance basis. For those with salaries in foreign currency, the lending rate is around 11 per cent a year. Loan closing costs are three per cent of the loan amount, consisting of an arrangement fee, legal costs, stamp duty and mortgage registration fees. Title transfer and registration of mortgages was cited as one of the main problems.

To qualify for a mortgage loan one must have a minimum salary of TZS 800,000 per month. Hardly any one of those in the income distribution in Figure 6 meets this condition.

Source: CBA

Secured or mortgage lending is constrained by a legal framework that makes it difficult for lenders to foreclose in the event of defaulting by the borrower. This point was stressed by a recent housing finance forum that, in its review of mortgage lending, concluded that the major barrier to development of the mortgage market is an inadequate legal and administrative infrastructure. The forum pointed out that:

"Despite reforms undertaken by the Ministry of Lands and Housing, the bankers, as well as many housing experts, insist that the reforms have not gone far enough in reducing various risks to support a more active market. Mortgage clauses are buried in the land law, land titling faces many barriers, and a history of poor payment culture continues to be cited. Foreclosure and enforcement are very problematic, in part because of failures in the judicial system, and several bankers said they would do most anything to stay out of court"[97].

A report prepared in 2008[98] recommends non-judicial foreclosure as is the case in Kenya and other countries such as Mexico, Ukraine, Mongolia, Croatia and Pakistan. The report sets out the legal impediments to mortgage lending (Box 9).

Box 9: Mortgage lending: Legal impediments

Tanzanian law provides that all mortgage foreclosure of a family residence requires court intervention. By contrast, the legal systems in most developed mortgage markets and in many developing countries allow for foreclosure without litigation, and in some cases without any court procedure at all, as long as the lending documents provide for this and the debtor does not raise a credible challenge to the lender's action. Court action, when required, proceeds with a reasonable level of efficiency and certainty, often under special procedural provisions provided in the law.

In Tanzania, on the other hand, there is a widespread perception among lending institutions that the current legal and institutional framework affecting the creation and enforcement of mortgages is inefficient and biased in favour of the rights of borrowers. Some lenders, including those with regional or international presence, report that this is the primary reason they have not entered the mortgage market. It appears that there is at least some truth to this perception. Lawyers for those banks that are making mortgage loans report experiences in which their rights to obtain possession of and sell a mortgaged property were stymied or delayed by injunctions or other court interventions based on frivolous or extra-legal grounds, in some cases leading to years of litigation and ongoing lack of resolution of their claims.

This problem is exacerbated by several factors:

- the requirement of a court action to seize and sell residential property,
- the lack of clarity in the relevant laws regarded which courts are competent to hear mortgage-related litigation,
- failure of the relevant laws to set limits on what defenses a debtor can raise, either to enjoin the lender from bringing an action to foreclose or to challenge the lender's rights to foreclose once litigation has been started by the lender, and
- a significant case backlog in the courts.

Source: Butler et al. (2007)

The Mortgage Financing (Special Provisions) Act (2008), expected to be operational soon, was enacted to address the legal issues of mortgage lending raised by the banking community. As already pointed out, it will need to be tested before its impact on the market can be assessed[99]. Besides the legal problems surrounding foreclosure, there are two other problems worth noting. The first is that 80 per cent of plot occupiers do not have registered titles and would therefore not qualify for mortgage loans even if they met other lending criteria[100]. Moreover, the process of land titling faces substantial capacity constraints as does the registration of mortgages[101]. The second hurdle is the lack of reasonably priced term finance. Pension funds, although available and well-suited for this type of financing, demand a minimum of 300 basis points above the Treasury

97 Martin (2008)
98 Butler et al. (2007)
99 Interview with Azania Bank
100 In areas that are not regularized people have informal rights of occupancy . In regularised areas they would hold five-year residential licences.. In surveyed areas, tenure would be leasehold for at least 33 years.
101 Butler et al. (2007)

bill rate, according to the World Bank. This pricing makes this source unattractive to prospective clients. If the return on pension fund investments were to be based on long term risk-return criteria, as envisaged in pension reforms, this source would prove more attractive and affordable to mortgage lenders.

A proposal to establish a liquidity facility has been approved by BOT and is receiving support from the World Bank (Box 10). The facility will be part-owned by the commercial banks. Once operational, it would provide lenders with the long-term capital they need for mortgage lending and enable them to grow their mortgage portfolios. Ultimately, when the capital market is well developed, the facility would be able to mobilize long-term capital through bond issuance.

Box 10: Housing finance project

The housing finance project supported by the World Bank, with an implementation timeframe of about 5 years, has three components:

Development of the Mortgage Market: This component seeks to create a mortgage liquidity facility to provide long term funds for mortgage lending. It would also include an 'kick start' phase where the World Bank loan would be used to directly fund banks, to build up a critical pool of mortgages before the liquidity facility can start its operations. The World Bank loan will provide the facility with its initial funding base, which could then be renewed through a follow-on loan depending on the evolution of the domestic capital market.

Development of Housing Microfinance: An initial study would assess the potential to develop this product and look at how the liquidity facility could help in providing longer term funds to allow loans for up to 5 years or longer to be granted. Regulatory reform and capacity building around this product will also be necessary to foster a safe lending environment. The component would also support a housing microfinance pilot scheme, as well as practical support to lenders intent on developing their portfolios.

Expansion of affordable housing supply: Work will be undertaken to support a private developer market catering to the housing needs of different segments of the income distribution. A range of measures will be included including improving the availability of serviced land for residential development, and construction finance for developers; promoting the use lower cost construction technologies; and regulatory measures concerning building codes and planning bylaws.

Adapted from a World Bank Concept Paper

Access to housing finance: the main challenges

This section summarises the main challenges that will need to be addressed to broaden access to housing finance in the country.

Affordability

Urban areas: Only a minority of the population can adequately meet their housing needs as *current* household incomes are very low relative to housing costs. But rental income from subletting, if taken into account in assessments of affordability in urban housing markets, would substantially improve affordability. This revised approach to affordability would enable financiers to reach more people. Second, as housing microfinance is generally affordable by the majority, it holds great potential for helping the poor to improve their current housing stock. After all, it is the existing stock that supplies the bulk of housing services. Besides, housing microfinance would help accelerate new construction, reversing the trend of incomplete houses that dot new building sites. The ongoing housing finance project between government and the World Bank, and other housing microfinance pilot projects, are expected to build up a body of credible evidence on the capacity of poor people to afford housing. It is therefore important for the implementers to:

- Carefully monitor and evaluate the performance of these projects; and
- Publish the outcomes of such investigations.

Rural areas: In rural communities, there are no housing markets ruling out the use of rental income in the affordability calculus. For this reason, a different financing approach is needed. PTF lending has shown that housing loans should only be made on the back of successful microenterprises to ensure that there is adequate income to meet the repayment of housing loans. In the wider context, improvements to rural infrastructure services, such as water and sanitation, are probably the more critical elements in raising the standards of rural habitats. Still, the design of appropriate housing finance solutions for rural and peri-urban localities is an important challenge. Towards this end it would be important for PTF and other partner organizations to:

- Evaluate PTF's rural housing loans, and others, to determine their efficacy and sustainability;
- Investigate what other strategies, direct and indirect, could be used to support the improvement of rural housing.

Barriers to expanding housing supply

Expansion of the housing stock is held back by a whole range of financial and non-financial barriers. The lack of a formal housing finance system, a serious policy constraint, severely limits the supply of all categories of housing, from low-income to up-market dwellings. In particular, finance is not readily available for incremental construction in the low-income market and housing stock improvements and new construction take years. Yet the capacity is lacking for mainstreaming quality incremental construction. In the middle and high income markets, a poorly developed mortgage sector suppresses the supply of pre-built units. In all cases, supply is hampered by the limited supply of land with access to infrastructure services. Bridging finance exists in the banking sector, but to unlock it, end user finance would have to be assured. Government and private lenders will need to:

- Address existing barriers -- financial and non-financial -- to expanding access to housing finance for all income groups;
- Determine how best to capacitate organizations that provide technical assistance for incremental housing construction.

Capacity in the housing microfinance sector

Field investigations strongly pointed to the lack of capacity to expand housing microfinance operations. First, there are only a few micro-lenders in housing and their initial concern is to pilot feasible approaches. Second, poor capacity to provide technical support services will continue to restrain lending operations, a point emphasized by WAT and supported by secondary evidence. In particular, as HFHT point out, microfinance is an industry with a high staff turnover, particularly of credit officers, which can disrupt operations. Measures to contain this operational risk are therefore needed, such as competitive compensation packages. Third, although the larger MFIs, such as PRIDE and FINCA, have the capacity to reach more people, their market knowledge of housing microfinance is limited. Fourth, there is little capacity to structure financial 'deals" between commercial banks and housing micro-lenders, undermining the ability of the latter to leverage wholesale loans. Such deals will continue to be frustrated by the lack of good market intelligence by commercial lenders as to the risks and returns associated with housing microfinance. To expand capacity for housing microfinance it is important that:

- The larger microfinance institutions fast-track their entry this business segment, bringing their resources and micro-lending experience to bear on housing for the poor;
- The commercial lenders deepen their knowledge of housing microfinance, without which they will be reluctant to provide wholesale finance to micro-lenders.

Small loans, high costs

Small loans are saddled with high transaction costs, often making them an uneconomical area of business for commercial lenders such as banks. But micro-lenders that have a community focus, such as NGOs, are often able to reduce lending costs because of their smaller overheads and their group lending methodology[102]. Until there is an adequate number of such micro-lenders it will be difficult for housing microfinance to go to scale.

Culture of non-payment of debt

A culture of non-payment of debt by households has been reported in the literature[103] and allusions to this problem came up during interviews. The reasons for this behaviour are varied. Some commentators have blamed the predominance of state provision in the past, arguing that the moral compunction to meet the costs of publicly provided goods and services is often lacking. The lack of "ownership" of the housing process has been observed even where private providers are involved. HFHT has reported that where the financier offers technical assistance for house building, clients are reluctant to service their loans should they later consider construction standards to be unsatisfactory. Allowing the client to take charge of the construction process, HFHT argues, would increase "ownership" and the willingness to repay loans. This challenge will need to be addressed through client education so that lenders can change their present perception that financing housing carries a high credit risk. Separating the financing and technical assistance roles, as HFHT and WAT have done, would also alleviate the problem.

102 Members in the group would usually know each and this reduces the costs of carrying out due diligence. This is especially important in Tanzania where there is no national identity system -- groups would confirm the identity of the borrower thus containing the risk of misidentification. In addition, peer pressure among members encourages prompt repayment, reducing loan administration costs. There is casual evidence, nonetheless, that some borrowers resent group lending, preferring to take out loans on their own.
103 See, for instance, Martin (2008)

For pre-built housing bought with mortgage finance, the lack of straightforward foreclosure procedures dilutes the credible threat that borrowers stand to lose their properties if they default[104]. This problem is expected to recede once the Mortgage Financing (Special Provisions) Act (2008) is in force.

To address the key issues action will be required as follows:

- Commercial lenders should use their corporate social responsibility resources to promote financial literacy among their potential customers;
- Microlenders should foster ownership of the housing process by their clients.

Regulatory and policy barriers

The regulatory and policy environment has been substantially reformed over the last two decades, laying the basis for creating an efficient housing finance system. But the impact of these reforms on housing finance needs to be put to the test. First, the regularization of informal settlements, an important area of reform as it gives official recognition to informal housing, is expected to open up access to housing microfinance. This is an aspect that should be evaluated in future to assess its contribution to mainstreaming housing microfinance. Second, the efficacy of the Mortgage Financing (Special Provisions) Act (2008) will remain unclear until it is tested in the courts.

Drawing on their experience in Dar es Salaam, HFHT have drawn attention to two urban planning constraints that might have wider implications for housing microfinance (Box 11).

Box 11: Urban planning constraints

Construction on Illegal Lands: Many potential clients have built structures on illegal lands, such a flood-prone areas or public land. This is the case in Mbagala Kuu, Mtoni and other wards that have flood prone valleys and wetland areas. Local leaders will be required to sign on loan applications, certifying that the clients' proposed home improvement process is not located on a piece of land deemed illegal for construction by the government.

Urban Planning: Some of the areas in Temeke Municipality are in the process of being added into Dar es Salaam's urban planning framework, particularly in the Kigamboni Ward. This poses a risk that existing structures could be demolished depending on the outcome of the master plan. To mitigate this risk, *Makazi Bora* will not be implemented in those areas until the master plan is completed and the relevant authorities have been approached to determine the practical outcomes for the area.

Source: Habitat for Humanity Tanzania

Acting through its Housing Department and in coordination with other stakeholders, government should:

- Evaluate the impact that regulatory and policy reforms have had on housing microfinance and identify any remaining blockages;
- Monitor the application of the Mortgage Financing (Special Provisions) Act (2008).

Linking settlement upgrading and housing microfinance

Experience from Dar es Salaam, where there is an extensive programme to upgrade community infrastructure, points to limited coordination between the municipal authorities in charge of upgrading and the NGOs that are starting to provide housing microfinance. Coordination would ensure that housing microfinance operations give first priority to those sites where upgrading has started, and thus complement public investments in community infrastructure. It would therefore be important for municipalities and NGOs to:

- Agree upgrading priorities ahead of actual interventions;
- Create a coordinating mechanism to ensure that their activities are properly sequenced and aligned.

Limited sector data

There is inadequate sector data on many aspects. Examples include: income distribution by main town; house prices and rents, disaggregated by principal town; portfolio information on mortgage lending, including details on lender portfolios and the number of loans per year; and micro lending for housing including information on portfolio size and performance; and property transactions in the housing resale market. This type of data should be collected by the Department of Housing in collaboration with the National Bureau of Statistics.

104 See, for instance, Butler *et al.* (2007)

Conclusions

Tanzania has a weak housing finance and property market. But a resurgent economy and the deep seated and wide-ranging financial reforms of the last two decades provide a solid foundation for building a housing finance system that responds to the needs of all households. Such a housing finance system would also energize the property market by boosting house re-sales as well as the development of new houses. At the lower end of the market, housing microfinance, currently being piloted, will need to be scaled up for it to have an impact on housing for the poor and for lower-middle income households. The potential for scaling up will increase as links are developed between wholesalers of finance and housing micro-lenders. In this regard, the use of both conventional and community-based guarantees as tools for credit enhancement will need to be expanded and evaluated from time to time.

Savings are an important element of housing microfinance and MFIs will generally only lend to those who have saved towards their housing. To MFIs, savings act as a means of containing credit risk since, in the event of default by the borrower, they can be used to offset losses. Moreover, savings are an indicator of the borrower's commitment to improved housing as well as the ability to repay loans.

Serious constraints continue to retard the growth of housing finance. In the housing microfinance sector, poor market knowledge and limited institutional capacity are barriers that will need to be brought down. Moreover, insecurity of tenure discourages the extension of housing microfinance into some of the settlements occupied by the poor. The regularization of such settlements, where feasible[105], and the recent changeover to 5-year residential licences are likely to play an important role in mainstreaming housing microfinance. In the wider financial sector, access is undermined by a whole range of factors: low education levels; occupational status, with formal workers having an advantage over their informal counterparts; and entrepreneurial ability which improves access.

With regard to secured lending, the lack of term capital and the difficulties surrounding foreclosure, unless tackled quickly, will continue to restrain mortgage lending. The proposed liquidity facility and the Mortgage Financing (Special Provisions) Act (2008) are expected to address these challenges and foster the growth of this segment of the housing finance system. Another area of concern is the limited capacity to issue new land titles, to establish and manage a registry for sectional titles under the Unit Titles Act, and to register mortgages. Yet another bottleneck is that the consent to transfer titles, traditionally the responsibility of the Commissioner of Lands, has usually taken very long, delaying the processing of mortgage loans. The recent decentralization to municipalities of the authority to give consent should help speed up this process.

Recommendations for development agency engagement

Recommendations for FinMark Trust and donor agency engagement naturally follow from the conclusions that highlight the areas most in need of attention. These include;

For FinMark Trust:

Housing microfinance , unlike conventional finance, has traditionally received little attention from research bodies and development partners. For this reason, there is a compelling case for FinMark Trust to give attention to the areas listed below:

- Funding research on financial engineering for housing microfinance with a focus on: (a) the design and use of credit enhancement tools such as conventional and community-based guarantees to leverage commercial capital; and (b) lending methodologies;
- Funding research on the development of evaluation benchmarks for housing microfinance institutions and their products;
- Supporting the compilation, updating and dissemination of data on housing microfinance using a variety of channels e.g. workshops and e-publications;
- Supporting training in housing microfinance for practitioners;
- Promoting financial literacy in collaboration with development partners

105 There will be cases where it is not feasible to regularise such settlements e.g. where they lie in hazazdous areas such as flood plains.

For development agencies:

- Mainstreaming guarantees as a tool for credit enhancement so that retailers of housing finance are able to leverage wholesale loans from commercial lenders. Donor funds could, for instance, be channeled through the Financial Sector Deepening Trust in view of its ongoing pilot with WAT;
- Supporting the design of housing microfinance pilots along the lines proposed by the recent report by the African Union for Housing Finance106;
- Supporting the housing microfinance forum initiated by WAT so as to facilitate learning, information exchange and standardization, where relevant, of housing microfinance practice;
- Building the capacity of the Registrar of Titles and municipalities to remove the constraints that surround land titling and foreclosure;
- Supporting the growth of the primary mortgage market.

Respondents & References

Bank of Tanzania	Harry J. Ndambala, Acting Director Microfinance Supervision Department Directorate of Banking Supervision	+255 684313127 hjndambala@hq.bot-tz.org
	A. Ukhotya, Manager, Operations and Policy Review, Directorate of Banking Supervision	+255 784 475553 aaukhotya@hq.bot-tz.org
	Thomas M. Mongella, Senior Bank Examiner, Directorate of Banking Supervision	+255 754 520485 tmongella@hq.bot-tz.org
	Ms Nangi Massawe, Senior Bank Officer Real Sector and Microfinance Department	
Ministry of Lands, Housing and Human Settlements Development	Prof. Tumsifu Jonas Nnkya, Director of Housing	+255 784 632422 Nnkya6654@gmail.com
	Ms Subira Sinda, Registrar of Titles	+255 786457171 rt@yahoo.co.uk
	Mr C. S. Mero Principal Town Planner	
National Housing Corporation	Hermes C. Mutagwaba, Research and Planning Manager	+255 (0) 22 2850593, hcmuta@yahoo.com hmutagwaba@nhctz.com,
Dar es Salaam City Council	Ms Margareth Mazwile, CIUP Coordinator	+255 754 000070 mazwile@yahoo.com
	Ms Rachel Kaduma, Coordinator, Slum Upgrading Programme	
Financial Sector Deepening Trust	Ian Robinson, Technical Director	+255 756 092564 Ian@fsdt.or.tz
	Sosthenes Kewe, Technical Manager	+255 756 776336 sosthenes@fsdt.or.tz
	Victor C. Bukozo, Programme Administrator	+255 784 788662 victor@fsdt.or.tz
Akiba Commercial Bank Ltd	Wilberd Makishe, Head of Corporate Banking	+255 713 596010 md@acbtz.com
Azania Bank Limited	Charles G. Singili, Managing Director	+255 754 784117 singili@intafrica.com
Commercial Bank of Africa	Ms Miranda P. Lutege, Relationship Manager, Mortgage Finance	+255 754 923888 Miranda.lutege@cba.co.tz
CRDB Microfinance Service Company Ltd.	Titus Tumaini, Chief Credit Manager	+255 754 580577 ttumaini@crdbbank.com
	Thadei J. Nyantori, Relationship Manager	+255 713 433213 tnyantori@crdbbank.com
Oiko Credit	Deus Manyenye, Country Manager	+255 787 210865 dmanyenye@oikocredit.org
Centre for Community Initiatives	Dr Tim Ndezi,	+255 786 796795 ccitanzania@gmail.com

106 See Martin (2008)

Dunduliza	Tasilo Joseph Mahuwi, Managing Director	+255 22 2124962 dunduliza@cats-net.com
DID Tanzania	Sylvie Gauvin, Managing Director	+255 784 434060 sgauvin@did.qc.ca
Habitat for Humanity Tanzania	Boaz A. Boazi, Programme Manager	+255 784 754090 bckim@hfhtanzania.org
Presidential Trust Fund	Ms Mary Ibrahim Likwelile, Chief Executive Officer	+255 784907410 ptf@africaonline.co.tz
Tanzania Gatsby Trust	Kenneth Sinare, Housing Programs Officer,	+255 0713 250221 kensinare@gmail.com
WAT-Human Settlements Trust	Ms Tabitha Siwale, Chief Executive	+255 754 580420 wat@raha.com
	Stephen Wanjala, Rooftops Canada Housing Microfinance & Housing Development TA	+255 768 684227
WAT -SACCOS	Pauline Shayo, CEO	
UN-Habitat	Philemon S. Mutashubirwa, Habitat Country Programme Manager	+255 784 364439 Phillemon.mutashubirwa@unhabitat.org
	Mwijage Joe Bishota, Slum Upgrading Facility Country Advisor	+255 787 170170 bishota@olaari.com

References

1. Bank of Tanzania (2009) "Monthly Economic Review". November, 2009.
2. Butler, S. B. et al. (2007) "Tanzania: Action Plan for Developing the Mortgage Finance Market". Report on legal and regulatory issues in the mortgage market in Tanzania. The Urban Institute, Washington DC
3. Economist Intelligence Unit (2008) "Country Report: Tanzania".
4. Finscope 2009
5. Finscope 2006).
6. IMF (2009) "Tanzania: The Story of an African Transition" African Department, IMF: Washington DC
7. Jorgensen, N. (2008) "Housing the No-income Group: The Role of Housing Finance in Alleviating Urban Poverty." Housing Finance International, Vol. XXII No. 4, pp. 41-45.
8. Kombe, W. J. (2000) "Regularising housing land development during the transition to market-led supply in Tanzania" in Habitat International 24 (2000) 167-184.
9. Martin, R. (2008) "Development of Appropriate Housing Finance Products to Support Upgrading Activities" AUHF Final Report
10. Mathema, A. S. (2007) "Quantitative study: Household interviews, Dar es Salaam, Tanzania". Report for AUHF
11. Matrix Development Consultants (2007) "Review of Low-cost Housing Project" . Report for FSDT.
12. Merrill, S. and Tomlinson, M. (2006) "Housing Finance, Microfinance, and Informal Settlement Upgrading: An Assessment of Tanzania". An Urban Institute report prepared for the United States Agency for International Development and the African Union of Housing Finance
13. Milinga, A. (2006) "The social and economic impact of DCB to the Community in Dar es Salaam". Centre for Microfinance and Enterprise Development.
14. Mosha, L. H. (2008) "Architectural planning lessons from previous rural human settlements policies in Tanzania" in Journal of African Real Estate Research Vol. 1, Issue 1, Jan 2008, pp 49-53.
15. National Bureau of Statistics (2009) "Household Budget Survey 2009"
16. Nnkya, T. J. (2007) "Housing conditions, borrowing and lending in informal settlements in Dar es Salaam". Report for AUHF
17. Precht, R. (2005), "Informal Settlement Upgrading and Low-income Rental Housing: Impact of Untapped Potentials of a Community-based Upgrading Project in Dar es Salaam, Tanzania". Paper presented at the 3rd World Bank Urban Research Symposium on: "Land development, urban policy and poverty reduction", Brasilia, 4 – 6 April.
18. Sheuya, S. A. (2007) "Reconceptualizing housing finance in informal settlements: the case of Dar es Salaam" in Environment and Urbanization; 2007; 19; pp. 441-456
19. Sulle, E. and Nelson, F. (2009) "Biofuels, land access and rural livelihoods in Tanzania". International Institute for environment and Development.
20. Triodos Facet (2007) "Tanzania: Country Scan – Microfinance". Report for Hivos/Microned.
21. UN-Habitat (2005) "Improving access to domestic capital for slum upgrading and low income housing projects" Slum Upgrading Facility Working Paper.

22. UN-Habitat et al. (2003) "Re-establishing Effective Housing Finance Mechanisms in Tanzania: The potentials and Bottlenecks". HS/694/03E. ISBN:92-1-131683-3
23. United Nations Department of Economic and Social Affairs, Population Division (2008) World Urbanization Prospects: The 2007 Revision, United Nations, New York
24. United Republic of Tanzania (2005) "National Strategy for Growth and Reduction of Poverty".
25. United Republic of Tanzania (2009) "Tanzania Housing Development Policy" Draft VI, Nov. 2008.
26. World Bank (2009) "Country Brief, November 2009".

Websites

1. http://devdata.worldbank.org/AAG/tza_aag.pdf
2. http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/TANZANIAEXTN/0,,menuPK:287345~pagePK:141132~piPK:141107~theSitePK:258799,00.html
3. http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=&REPORT_ID=1305&REQUEST_TYPE=VIEWADVANCED
4. http://www.unhabitat.org/stats/Default.aspx

FINMARK TRUST
Making financial markets work for the poor

Annexures

1: Key economic data[107]

	2003[a]	2004[a]	2005[a]	2006[a]	2007[a]	2008[b]	2009
GDP							
Nominal GDP (US$ m)	10,291	11,311	12,111	12,420	14,311[c]	17,482	18,944
Nominal GDP (TSh bn)	10,686	12,321	13,673	15,549	17,818[c]	20,798	23,885
Real GDP growth (%)	6.9	7.8	7.4	6.7	7.1	7.1	6.9
Expenditure on GDP (% real change)							
Private consumption	2.7	6.2	11.2	8.1	6.0	4.3	4.3
Government consumption	29.0	14.6	11.9	8.2	9.5	11.9	11.0
Gross fixed investment	14.0	10.4	18.7	16.0	14.5	19.0	15.8
Exports of goods & services	19.5	8.3	13.5	-3.3	16.8	13.0	9.6
Imports of goods & services	21.5	9.6	34.2	10.3	16.3	15.2	11.8
Origin of GDP (% real change)							
Agriculture	3.2	5.9	4.4	3.9	4.0	4.0	4.0
Industry	10.9	10.9	10.4	8.5	9.5	10.0	9.8
Services	7.8	7.8	8.0	7.8	8.1	8.2	8.3
Population and income							
Population (m)	36.9	37.6	38.3	39.0[c]	39.7[c]	40.4	41.1
GDP per head (US$ at PPP)	776	833	902	976[c]	1,055[c]	1,146	1,242
Fiscal indicators (% of GDP)							
Central government budget revenue	15.9	17.5	20.0	19.8	24.9[c]	23.9	24.0
Central government budget expenditure	17.2	20.5	24.0	25.2	25.1[c]	26.4	26.7
Central government budget balance[d]	-1.9	-2.9	-5.1	-6.4	-1.0[c]	-2.5	-2.7
Public debt	61.3	56.3	55.8	23.5	19.5[c]	22.1	23.1
Prices and financial indicators							
Exchange rate TSh:US$ (end-period)	1,064	1,043	1,166	1,262	1,132	1,185	1,260
Exchange rate TSh:€ (end-period)	1,342	1,412	1,375	1,665	1,653	1,695	1,739
Consumer prices (end-period; %)	3.4	4.2	5.0	6.7	6.4	9.0	6.5
Stock of money M1 (% change)	16.1	18.2	33.7	10.9	31.4	20.5	21.7
Stock of money M2 (% change)	16.6	19.2	38.2	18.3	25.2	21.1	22.3
Lending interest rate (av; %)	14.5	13.9	15.1	15.4	16.0	19.3	17.2
Current account (US$ m)							
Trade balance	-713	-1,001	-1,319	-1,947	-2,634	-3,351	-3,413
Goods: exports fob	1,221	1,482	1,679	1,918	2,227	2,494	2,487
Goods: imports fob	-1,934	-2,483	-2,998	-3,864	-4,861	-5,844	-5,900
Services balance	222	164	62	279	240	470	509
Income balance	-139	-114	-104	-93	-79	-93	-104
Current transfers balance	511	589	496	589	617	760	862
Current-account balance	-118	-362	-864	-1,172	-1,856	-2,214	-2,146
External debt (US$ m)							
Debt stock	6,991	7,805	7,780	4,198	4,382[c]	5,304	5,821
Debt service paid	92	120	132	112	63[c]	71	80
Principal repayments	52	67	82	65	32[c]	37	43
Interest	40	52	50	48	31[c]	34	37
Debt service due	263	315	132	210	63[c]	71	80
International reserves (US$ m)							
Total international reserves	2,064	2,322	2,072	2,281	2,910	3,229	3,424

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Economist Intelligence Unit estimates. [d] Includes adjustment item.

Source: IMF, *International Financial Statistics*.

107 Reproduced from EIU (2008)

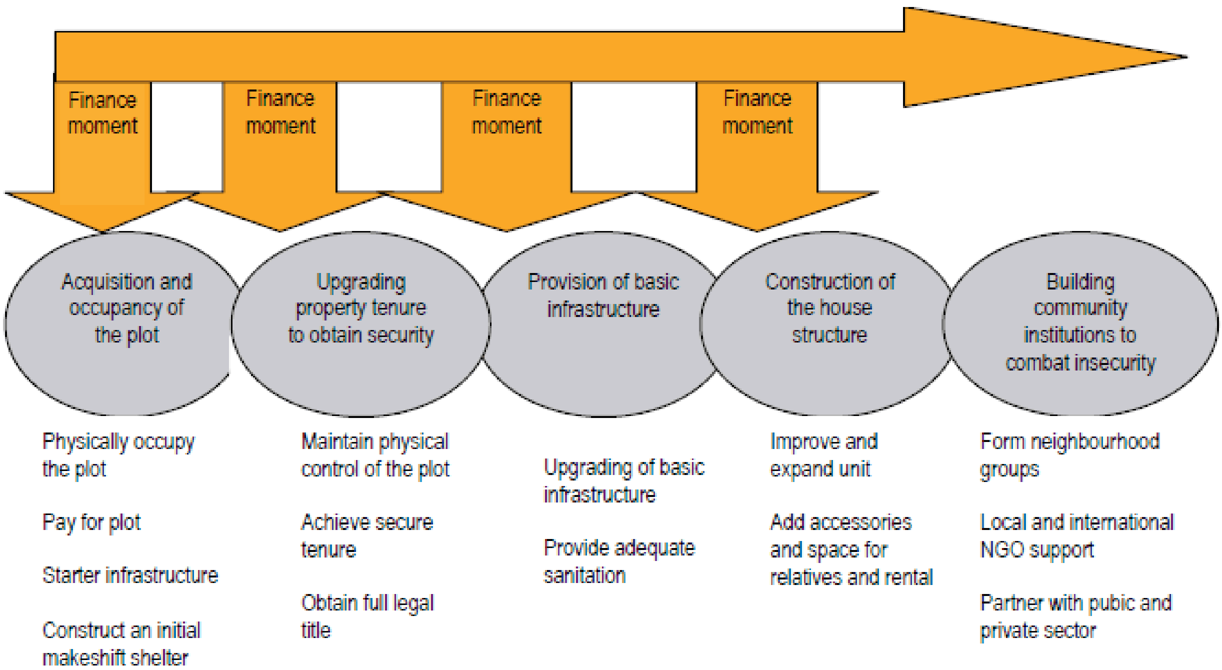
2: Interest rate structure

Percent

Item	Nov-08	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Overall Interbank cash market rate	5.85	10.10	9.58	6.80	5.03	3.86	1.42	1.34	1.63	1.62
Overnight interbank cash market	5.51	9.90	9.29	6.49	4.46	2.44	0.82	1.04	1.21	1.19
REPO Rate	5.32	9.73	8.25	6.10	4.90	2.23	1.21	1.12	1.32	1.28
Discount Rate	15.33	18.33	16.01	13.00	10.31	6.95	5.20	4.40	3.70	4.23
Overall Treasury bills rate	10.33	13.33	11.01	9.27	6.97	5.81	5.16	4.52	5.17	6.36
35 days	6.44	7.62	7.03	6.40	4.81	3.45	2.65	2.07	3.01	3.33
91 days	10.76	12.43	10.55	8.25	5.56	4.14	3.53	2.97	3.38	5.29
182 days	11.00	14.86	12.04	10.20	7.86	6.27	5.46	4.84	4.90	5.28
364 days	11.97	14.99	12.57	10.69	9.11	8.28	7.72	7.79	8.22	8.60
Savings Deposit Rate	2.66	2.72	2.72	2.72	2.69	2.68	2.68	2.66	2.61	2.52
Treasury Bonds Rates										
2-years	14.35	15.28	15.28	15.28	11.51	11.51	11.51	11.51	10.89	10.89
5-years	16.39	17.32	17.32	16.58	16.58	16.58	16.58	13.45	13.45	13.45
7-years	17.04	17.04	17.06	17.06	17.06	17.06	14.14	14.14	14.14	14.15
10-years	19.47	19.92	19.92	19.92	19.92	16.95	16.95	16.95	16.95	16.95
Overall Time Deposits Rate	6.57	7.00	7.10	7.08	6.77	6.94	6.87	6.72	6.40	5.78
12 month time deposit rate	8.95	8.56	8.98	9.41	9.06	9.04	9.02	8.82	8.83	7.36
Negotiated Deposit Rate	10.26	10.99	11.27	11.03	10.13	10.52	10.47	10.60	10.11	9.85
Overall Lending rate	14.30	15.12	15.45	15.39	15.48	15.14	15.12	14.90	14.76	12.26
Short-term lending rate (up to 1year)	13.57	13.44	13.87	13.68	14.57	13.94	13.77	13.98	13.95	11.99
Negotiated Lending Rate	12.11	13.01	14.03	14.17	14.28	14.26	14.24	13.81	11.12	10.76
Margin between short-term lending and one-year time deposit rates	4.62	4.88	4.90	4.27	5.51	4.89	4.74	5.16	5.12	4.64

Source: Bank of Tanzania (2009)

3: Depiction of the incremental housing process



Based on Ferguson (2008)