

**THE EFFICACY OF HOUSING FINANCING SCHEMES FOR THE  
DEVELOPMENT OF HOUSING SECTOR IN TANZANIA: THE CASE OF  
MLIMAKOLA AREA IN MOROGORO MUNICIPALITY**

**By**

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**A dissertation submitted to the School of Business in partial fulfillment of the  
requirements for Award of the Degree of Masters of Business Administration  
[Corporate Management] of Mzumbe University**

**2013**

**CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled *“The Efficacy of Housing Financing Schemes for the Development of Housing Sector in Tanzania”*: *The Case of Mlimakola Area in Morogoro Municipality*, in partial fulfillment of the requirements for Award of the Degree of Masters of Business Administration [Corporate Management] of Mzumbe University.

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## **DEDICATION**

This work is dedicated in the loving memory of my late father Sankey L. Kamomonga

## **LIST OF ABBREVIATIONS**

BFIA	Banking and Financial Institutions Act
BOT	Bank of Tanzania
CBA	Commercial Bank of Africa
EABS	East African Building Societies
FHFS	Formal Housing Financing Schemes
FMBN	Federal Mortgage Bank of Nigeria
HFC	Housing Finance Company
HFS	Housing Finance Scheme
IBML	International Bank of Malaysia Ltd
IHFI	Independent Housing Finance Institution
KBS	Kenya Building Societies
LGA	Local Government Authority
LMIHDS	Low and Middle Income House Developers
MBS	Mortgage-Backed Securities
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania
MLHSD	Ministry of Lands, Housing and Human Settlements Development
MMC	Morogoro Municipal Council
NA	Not Applicable
NBC	National Bank of Commerce
NHC	National Housing Corporation
NSSF	National Social Security Fund
PMO-RALG	Prime Minister's Office, Regional Administration & Local Government
PPF	Parastatal Pension Fund
PSPF	Public Service Pension Fund
REIT	Real Estate Investment Trust
SPILL	Strategic Plan for the Implementation of the Land Laws

SSS	Sites and Services Scheme
TBA	Tanzania Bankers Association
THB	Tanzania Housing Bank
TMRC	Tanzania Mortgage Re-financing Company Ltd
UHIP	Urban and Housing Indicators Programme
UTA	Unit Title Act
UPC	Urban Planning Committee

## **ABSTRACT**

This study is about the efficacy of housing financing schemes for the development of housing sector in Tanzania. The study is set to fulfill the following objectives: to identify and assess the opportunities in the effective formal housing financing schemes for LMIHDs and the condition attached to the schemes; to determine patterns of financing housing construction by low and middle income households and the level of their awareness to the schemes of housing financing; to assess the extent of accessibility to the loans issued by financial institutions to the LMIHDs and to identify the challenges for implementing formal housing finance schemes in Tanzania.

The case study approach has been preferred research design since it has enabled this study use multiple sources of data, hence data triangulation has been enhanced by the choice of case study design. In this way the study was enabled to validate data and information from questionnaires, interviews and documentary reviews. In so doing both reliability and validity of data in this research were assured. The main findings of this research has been categorized into three groups; namely the findings on the part of the financial institutions, the government and those in the perspective of the LMIHDs. For the financial institutions, the efficacy of the housing financing schemes is affected by the high interest rates charged by these institutions and stringent conditions attached. Some of the schemes of these financial institutions tend to exclude individuals despite being members, for instance LAPF. The government, on its part, limits the efficacy due to cumbersome procedures for securing a title deed. On the part LMIHDs, the obvious fact is that most of them lacked collateral or were not in the secured employment and they automatically did not qualify for the loans.

The conclusion drawn in this research is that the efficacy of the housing financing schemes generally is under the discretion of the financial institutions themselves since they are the ones who set the conditions on HFS for the LMIHDs to qualify. Also the

government has a significant role in ascertaining that the LMIHDs fulfil such conditions as having the title deeds, building permits and the land is properly planned.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background information**

For all households, housing is an important determinant of quality life. It forms a large part of the economy; for instance in USA housing contributes 25% of the GDP (TBA, 2006). It is a key component of economic development, both because housing is a basic social need and because private home ownership is often an important source of capital for entrepreneurship at the grass roots level (Nasr, 2010). Despite this notable significance of housing, the situation in the emerging market economies, characterized with an economy with low to middle per capita income (Akinwunmi, 2009), indicates that a significant proportion of the population does not have access to adequate and affordable housing (Warnock, 2008). Unfortunately the countries falling in the emerging or developing market economies constitute approximately 80 percent of the global population, representing about 20 percent of the world economy (Akinwunmi, 2009). Thus, given this prevailing situation in these emerging economies, then the question of inadequate houses becomes eminent and is predicted to increase as a result of unprecedented and rapid urbanization, characterized with unplanned habitats. It has further been predicted that by 2030 two third of the world population will be living in the cities and towns, however given the excessive level urbanization which does not match the level of economic growth, this will mean the increase of housing problem in these areas (UN-HABITAT, 2008). Such forecasted situation is likely to accelerate the current witnessed high level of urban poverty and rapid expansion of unplanned urban settlements and slums which lack basic infrastructure and services, overcrowding and substandard housing conditions (UN-HABITAT, 2005).

It has been provided in various international instruments, for instance the Habitat Agenda of 1996 that reducing the number of slum dwellers around the world is the

cornerstone of the Millennium Development Goals. This was the motive behind the resolution of the United Nations General Assembly passed on 26th February 2002 to transform United Nations Commission on Human Settlements into a fully fledged programme - UN-HABITAT. The General Assembly in its resolution called upon the UN-HABITAT as follows:

“To take urgent steps to ensure a better mobilization of financial resources at all levels to enhance the implementation of the Habitat Agenda particularly in developing countries” (United Nations, 2002).

The resolution also stressed on:

“The commitment of member states to promote broad access to appropriate housing financing, increasing the supply of affordable housing and creating an enabling environment for sustainable development that will attract investment” (United Nation, 2002).

The Habitat Agenda recognizes that housing finance systems do not always respond adequately to the different needs of large segments of the population, particularly the vulnerable and disadvantaged groups living in poverty and low income line. In this regard, the agenda imposes the obligation on the part of the UN-HABITAT to assist member states to improve the effectiveness, efficiency and accessibility of the existing housing finance systems. This goes along with creating and devising innovative housing financing mechanisms and instruments for promoting equal and affordable means for accessing housing finance with the aim of enabling the large segment of the population achieve the goal of having shelter (UN-HABITAT, 2008).

Ferguson (2000) cited in Moss (2003) notes that surveys of low-income households in developing countries show that housing has a higher priority compared to education and healthcare. Despite that finance for housing has received very little attention over the years. For instance, the study conducted by FinScope (2011) reveals that about 2.2 percent of the fund borrowed by the urban dwellers is used for social reasons such as wedding ceremonies and birthday parties, while 1.4 percent of such borrowing is used

for building or improving a house and 0.2 percent is used to purchase a house. Derban *et al* (2002) quoted in Moss (2003) provide that the reason why finance for housing has received little attention is the large capital that is needed to buy or renovate a house. Studies conducted in 1995 under the Urban and Housing Indicators Programme (UHIP) revealed that about 70 percent of urban population lived in unplanned settlements and that about 60 percent of the urban housing stock is found in these settlements (Moss, 2003). Given the outcomes of these studies, it can be argued that the gap between the supply and demand for housing has been widening over time.

In Tanzania, in order for an individual to be able to access finance to build a house, needs to have land as a security. In most cases, people mortgage their homes as security in order to access funds for their different endeavors, for example, house building or purchase. This requirement for home as a security for housing finance poses a great difficulty for majority of Tanzanians since very few of them own houses which can be considered as sufficient security for mortgages.

Worse still, even those who own houses do not have adequate proof of ownership like title deeds to be able to use their houses as security. It is a common fact that most of these houses are located in unplanned areas and their owners do not possess any acceptable documents to prove their ownership. Thus, they cannot access housing financing schemes that are only provided by few commercial banks charging high interest rate of up to 25%. These has resulted a public outcry for long time among borrowers and in particular the small and middle income house developers community.

## **1.2 Background to the study Problem**

Since the collapse of the Tanzania Housing Bank (THB) in August 1995, the country has remained without a long term housing financing institution (Kironde *et al.*, 2003). The liberalization of the financial sector back in 1991 meant the starting point of the diminishing role of the Tanzanian government in supporting housing financing schemes.

Likewise the financial sector liberalization seemed not to motivate and encourage the financial institutions to advance loans for such purposes as acquiring houses by the members of the population who happen to fulfill certain loan securing criteria put forward by these institutions.

Recently, the government has introduced a number of reforms to promote mortgage and housing finance starting 2008. Most notably is the introduction of a legal framework that paved the way for mortgage finance. Such framework includes enactment of The Mortgage Finance (Special Provisions) Act No. 17 of 2008 which formed after amendment of three acts namely The Land Amendment Act No. 2 of 2004, The Land Registration Act Cap.334 and The Civil Procedure Act Revised Edition 2002 (See Appendix VI).The main aim of the act is to facilitate availability of housing financing for either purchase of a complete building or construction from the scratch (MLHHS, 2009).

This Act was widely welcomed by the banking community, as it strengthens the ability of creditors to enforce collateral. The previous legislation had led to a system which could be exploited through the use of delaying tactics and repeated appeals. The provisions of the Mortgage Finance (Special Provisions) Act No. 17 of 2008 clearly stipulate that the only reasons for a court to throw out a foreclosure claim are if (i)mortgage loan was never taken, or (ii) the loan has already been fully repaid. Again, the issue of spousal consent, which had made the previous law difficult to enforce, has been dealt with by making it a criminal offense not to disclose a spouse or obtain their consent when mortgaging a property, under penalty of a 12 month prison sentence or a fine of half the loan amount. The Act also contains a consumer protection section requiring clear disclosure of pre-contractual information such as interest rate, early repayment penalties, and full disclosure of costs.

Similarly, the Unit or Sectional Titles Act (Condominium Act) No. 16 of the laws of Tanzania was established in 2008 mainly to encourage ownership of flats. It covers landed property that is based on condominium property model. In this model three aspects of holding property are intertwined. First, individual persons would each own separate portions, within a given piece of land, as distinct self-contained parcels of property known as 'units' under UTA; but elsewhere these are known as 'strata titles' or 'sectional titles'. Secondly, there is that portion of the property that includes all the common areas, within the larger parcel of land, whereby all individual unit owners have access. These common areas comprise the common property that is co-owned by all the unit owners. Thirdly, the co-owners would usually form a body-corporate that would represent all the owners of the property-it is known as a Unit Association comprises the unit properties framework. Under Section 5 of the UTA, Unit property is defined to include a single building or several buildings comprising a section of unified project or site together with all the land that is part of the property. The unit property may be in variety of physical or structural forms of residential properties but the UTA lists four types namely: High- Rise Structures, Rows, Terraces and Buildings in cluster forms. The unit owner is assumed to also own undivided share of the common area known as a 'fractional share' which is equal to the relative size of his individual unit vis-à-vis the area owned by others.

The main benefit of the condominium property model is that it allows group individuals to share the greater benefits of cost sharing and cooperative management over joint-property that if such assets were individually held managed it would be overly burdensome to anyone individual. The model externalizes transaction costs of managing property from the individual to the group of owners. The economies of scale that are concomitant with this model have made it increasingly popular worldwide in urban settings over the last four decades, starting from USA and to all other countries with growing urban populations.

Many forms of merging the three factors mentioned above in variety of combinations have developed over time, some are strictly cooperative and homeowners associations, others are known as ‘gated communities’, ‘detached condominiums’, ‘site condominiums’, ‘planned neighborhoods’, ‘private neighborhoods’, etc.

Following the above development, Tanzania Mortgage Refinance Company Limited (TMRC) was incorporated on 29<sup>th</sup> January 2010 under the Companies Act, 2002 to among others, ‘develop the housing mortgage finance market through the provision of liquidity to mortgage lenders who must be banks or financial institutions as defined by the Banking and Financial Institutions Act No. 5 of 2006’ (BFIA, 2006). The Company has been capitalized by shareholder equity and has been part funded by an International Development Association (IDA) Credit. Currently there are 11 shareholding banks of TMRC namely CRDB, AZANIA, TIB, EXIM, NMB, DCB, NIC, ABC, NBC, PBZ and BOA (cf: <http://www.tmrc.co.tz/>).

The TMRC neither take deposits nor lend directly to households and has been regulated by the Bank of Tanzania under the BFIA, 2006. It is limiting to its core activity of refinancing mortgages. TMRC is a joint stock, wholesale (second tier), specialized liquidity facility operating on commercial principles with a profit making goal. It is majority privately owned by the users of its financial services, mainly participating mortgage lenders (PMLs) that is active banks and real estate lending companies. Many public and private lenders have joined the capitalization of the TMRC, which indicates their interest in expanding their mortgage lending.

The role placed on TMRC as a specialized financial institution is that provides long-term funding to banks to refinance their mortgage loans portfolio. Through TMRC lending, commercial banks get the loans at 10 per cent interest rate, the relief that is expected to be passed over to final consumers (Source: <http://www.tmrc.co.tz/>). In this regards one could expects many low and middle income house developers to take active access to

housing finance schemes in a country. There are a number of international examples of liquidity facilities, including the Federal Home Loan Banks in the US, Cagamas Berhad in Malaysia, Caisse de Refinancement de l'Habitat in France, the Jordan Mortgage Refinance Company, and the Swiss Pfandbriefe Institute (Nasr, 2010). These institutions have similar missions but somewhat different structure, powers and privileges.

Given the importance of housing to the existence and livelihood of mankind, there was a need to understand the prevailing housing financing schemes in Tanzania. This has been in line with assessing their efficacy to ascertain their sustainability and the level inclusiveness to the majority of Tanzania who seem to live in abject poverty (United Republic of Tanzania, 2010). Furthermore the collapse of the Tanzania Housing Bank (THB), the institution mandated to support Tanzanians with housing issues, as a result of economic liberalization and the recent legal framework reforms provided the rationale of identifying and assessing the efficacy of the current housing financing schemes for the purpose of understanding the extent to which they are capable of contributing to the development of the housing sector in Tanzania.

### **1.3 Statement of the Problem**

Despite the liquidation of THB in the mid 1990s, still Tanzania has in place such institutions as the Mortgage Financing (Special Provision) Act No. 17 of 2008 which in the ideal sense aims at enabling Tanzanians to have access to affordable housing. Through the Act, with the new Condominium Act, it is expected that the citizens in the country who are without decent houses will have the opportunity to acquire housing loans and purchase or construct new houses. Likewise Tanzania Mortgage Re-financing Company Limited (TMRC) was established in 2010 for the intention of providing support to the commercial banks for them to provide long term funding at low interest rate. Such institutions seem to have been provided with some mandate to deal with the question of facilitating the development of the housing sector in Tanzania within the

current era of economic liberalization and diminishing monopoly of the government in developing the housing sector after the demise of THB.

The legal frameworks and the TMRC introduced by the government was expected to bring about changes in the housing financing industry in a country in a sense of the level of inclusiveness of majority low and middle income house developers. However, the contrary seemed to the situation in Tanzania. Therefore it is from the above background that this research has assessed the efficacy of the housing financing schemes recently introduced by commercial banks for the development of the housing sector in Tanzania.

#### **1.4 Objectives of the Study**

In the view of improving housing sector in Tanzania, this study was guided by one main objective. Consistent with this, the study was further guided using four specific research objectives.

##### **1.4.1 Main objective**

To assess the efficacy of formal housing financing schemes for the development of housing sector in Tanzania.

##### **1.4.2 Specific Objectives of the Study**

- a. To identify the opportunities of effective formal housing financing schemes for low and middle income house developers and conditions attached to the schemes.
- b. To determine patterns of financing housing construction by low and middle income households.
- c. To assess the extent of accessibility to the housing loans products issued by the commercial banks (HFS) to the lower and middle income house developers.
- d. To identify the challenges for implementing formal housing financing schemes in Tanzania.

#### **1.5 Research Questions**

- a. What are the available opportunities for housing financing schemes? What are the conditions developed by commercial banks for one to secure housing loan?

- b. How do small and middle income house developers finance their dwelling units?
- c. To what extent are the loans provided by financial institutions accessible by the small and middle income house developers?
- d. What are the challenges for implementing formal housing finance scheme in a country?

### **1.6 Significance of the Study**

The low and middle income communities face many constraints in building adequate housing, particularly in the developing world. Millennium Development Goals (MDGs) require that countries improve the lives of urban slum dwellers significantly by the year 2020. In many countries a rapid flow of population to cities is putting pressure on the housing supply, while new construction is unable to keep up with demand or is out of reach for many. Nasr (2010) noted that access to affordable housing and home ownership for most households in developing economies has been constrained by an underdeveloped housing finance system. Developing housing finance schemes helps low and middle income households to acquire ownership of housing and enables these citizens to turn housing assets into a source for financing small business activities.

This study, therefore, revealed the available opportunities with regard to the formal housing financing schemes for the purpose of promoting development in the housing sector. In so doing, the findings of the study provided some insights on the efficacy of such schemes to the government and other stakeholders interested to promote the development of the housing sector through the formal housing financing schemes in Tanzania.

Also this study has been an ‘eye opener’ to the house developers who aim at constructing houses with some support from housing financing schemes. As an eye opener, the study provided an assessment of the pre-requisite of formal housing finance arrangements available. In this way, then, this study has served as a corner stone for future researchers on similar subject matter by suggesting areas which need further research.

Despite the growing literature on housing finance around the world (for example Ferguson 2004, Moss, 2003, and FinScope, 2011), only few publications, for instance Kironde et al., 2003, have described and analyzed the state of housing finance in Tanzania. Therefore this study added on the existing literature on housing financing in Tanzania.

### **1.7 Scope of the Study**

This research confined itself on assessing the efficacy of housing financing schemes introduced by financial institutions for the development of the housing sector in Tanzania. The focus was on assessing the available opportunities in such schemes to the low and middle income house developers, using Mlimakola area in Morogoro Municipality as a case study. The essence of selecting Mlimakola as a case study was based on the facts that about 95% of the area was surveyed 20 years ago.

### **1.8 Limitations of the Study**

In undertaking this research, the researcher faced some difficulties which includes:

- i) Reluctance on the part of the respondents to provide enough time for the interviews, especially those from the financial institutions.
- ii) Lack of enough time: researcher is an employee and he has not been given special permission for doing the research, thus the researcher has to participate in daily official duties at the same time doing the research.
- iii) Financial constraints: The researcher is self sponsored solely depend on salary and his personal savings for that case the researcher encountered a very tight budget.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

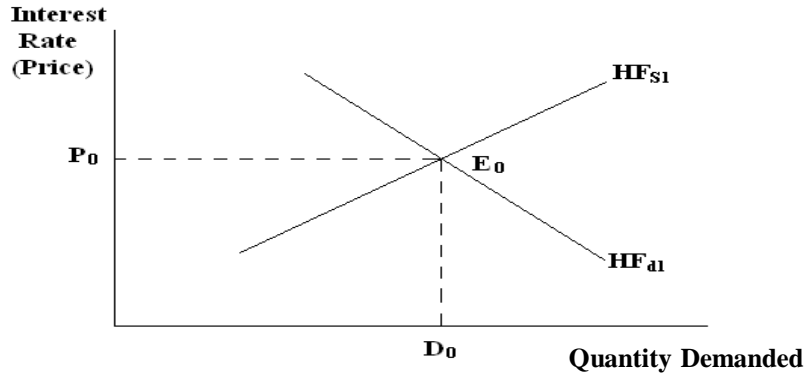
The main focus of this chapter is to provide theoretical and empirical literature as well as the conceptual framework that guides this study. A theory is a collection of concepts, which together provide an understanding of how a phenomenon is built up; and how it can be classified and used (Lundequist, 1999 cited in Kayuza, 2006). It follows that the demand and supply theories as well as interest rate theory were reviewed and all of these are discussed with a view to providing a perspective for the analysis of housing financing schemes vis á vis development of housing sector in a Tanzania. In addition concepts central to the study were reviewed. The intent was to provide a theoretical framework for analysing formal housing finance system under investigation.

#### 2.2 Theories of Housing Finance

##### 2.2.1 Demand and Supply Theories

The demand for housing finance is a representation of demand for an increased stock of debt to finance present aggregate demand for consumption, investment or government expenditure on goods and services (Pilbeam 2005; Wickens 2008). The demand for the housing finance is determined by the investment demand and the income of individuals (Girouard *et al.*, 2007; Gyntelberg *et al.*, 2007). It follows that a rise in the interest rate, all things being equal, leads to a fall in demand for housing finance, giving a downward-sloping demand curve of the housing funds (*See Figure 2.1*).

**Figure 2.1: Housing Finance Market in Equilibrium State**



**Source:** Adopted from Pilbeam (2005: 79)

The intersection of the supply and demand of housing finance determines the interest rate according to the housing funds approach to interest rate determination (Pilbeam, 2005). From Figure 2.1, HF<sub>s1</sub> represents the housing finance supply and HF<sub>d1</sub> represents the housing finance demand. The point (E<sub>0</sub>) where HF<sub>s1</sub> crosses HF<sub>d1</sub> is the equilibrium point. At this point the quantity demanded equals quantity supplied. This further means that any increase in the supply of housing finance results into the outward shift of the supply curve. Thus as income rises, so is the saving as well as the supply of housing funds and an increase in the proportion of savings held in the form of interest-earning assets compared to non-interest earning assets (Pilbeam, 2005). This, as noted by Megbolugbe *et al* (1991) in Akinwunmi (2009), gives the following general form of the housing demand equation which is the same as the quantity of housing finance demanded:

$$Q = q(Y, Ph, Po, T) \dots\dots\dots (1)$$

Where Q is housing consumption, Y is household income, Ph is the relative price of housing, Po is a vector of prices of other goods and services and T is a vector of taste factor. In some studies, a vector of household characteristics, H, has been included in the housing demand equation (Lee, 1968). The household demographics which include age,

race, employment status, education, marital status and household composition are included for the identification of consumer preference besides income and price factors.

If

$$T = t(H) \dots\dots\dots (2)$$

Then,

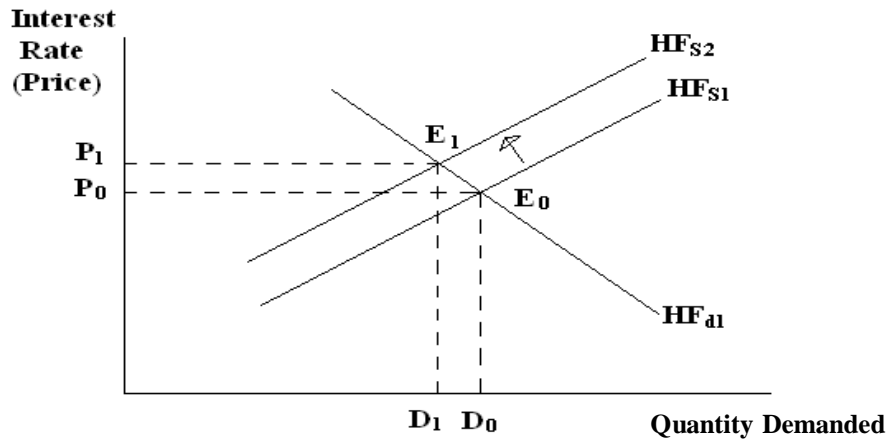
$$Q = q(Y, Ph, Po, H) \dots\dots\dots (3)$$

Thus, collecting data from the users of the housing finance at the household level is required for the aim of getting an accurate picture of the patterns of access to the housing finance and usage across the population (DFID, 2006).

Moreover, as shown in Figure 2.2, when the HF<sub>s1</sub> matrix shifts to HF<sub>s2</sub> with the demand matrix still at HF<sub>d1</sub>, the new equilibrium point is E1. At this point (E1), the price for obtaining the housing finance means that the interest rate moves to P1 and the quantity demanded moves to d1 (*See Figure 2.2 below*). This means that when the government adopts an instrument of macroeconomic policy that affects the supply side of housing finance, the supply matrix shifts to the left, the price (interest rate) increases and the quantity demanded reduced. This indirectly affects the affordability on the part of the households to obtain the housing finance when their income is fixed. This becomes the constraint that influences the households to re-order their spending patterns.

Alternatively, if the government adopts an instrument of micro-economic policy that affects the spending decisions by the economic agents or decision-makers in an economy (households, firms and government agents), the demand matrix of housing finance is also affected.

**Figure 2.2: Housing Finance Market with a Shift in the Supply Matrix.**

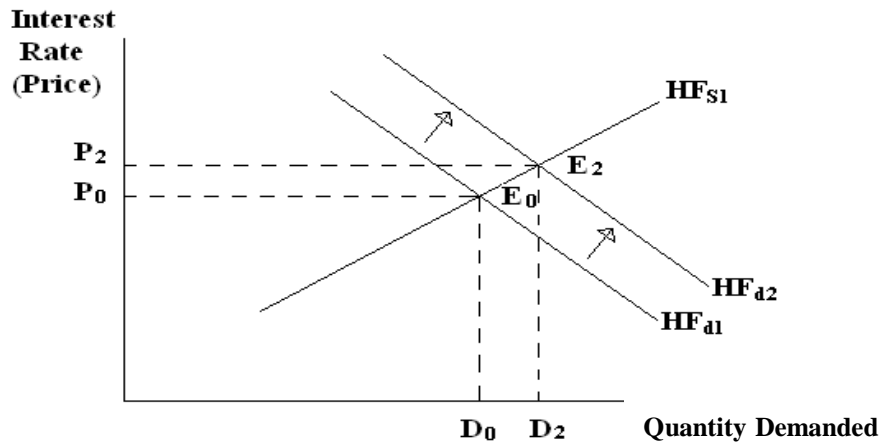


**Source:** Adapted from Pilbeam (2005:80)

There are several factors that can lead to an increase in demand for the housing finance and a resultant shift of the demand schedule to the right, among them, the most notable include an increase in the expected future income which means that the economic agents will be more confident about taking more debt today and the prospect for rising of the future interest rate which will encourage the economic agents to borrow more now at today's lower rate of interest (Girouard *et al*, 2007; Gyntelberg *et al*, 2007).

If the policy introduced by the government leads to the increase in disposable income and the demand matrix shifts to the right on the line HFd2 with the supply matrix still at HF<sub>s1</sub>. The quantity demanded moves to D2 at price (interest rate) of P2 (*see Figure 2.3 below*). In the long run, the inflationary (which is unstable in Tanzania) pressure on demand for housing finance generated by the increase in the disposable income leads to some households to recede demanding for the housing finance and the price (interest rate) movement comes back to P<sub>0</sub> as shown in Figure 2.3.

**Figure 2.3: Housing Finance Market with a Shift in the Demand Matrix**



**Source:** Adapted from Pilbeam (2005: 80)

### 2.2.2 Theory of Interest Rate

The housing finance theory of interest rate argues that the economic agents (like pension funds and insurance companies) have a certain amount of financial wealth and they can decide to hold the wealth in the form of either interest earning financial assets (like building structures), or in cash which earns no interest, or a combination of the two (Pilbeam, 2005; Buckle & Thompson, 2005 and Wickens, 2008). According to Akinwunmi (2009), the quantity of housing finance available is the stock of interest earning financial assets is determined by the amount of savings, switches from money holding into saving products and an increase in loans made by the financial institutions (Benston and Smith Jr, 1976).

The amount of savings refers to an individual's endowment that may consist of securities plus human health and the present value of his earnings. If the individual's preferred inter-temporal consumption differs from his time-profile of earning, his consumption might be re-arranged. This is done by purchases of financial securities or

early mortgage repayment (Benston and Smith Jr, 1976). Switches from money holdings into saving products refer to switches by individuals and business from holding financial wealth in the form of money to saving products. Finally an increase in loans made by financial institution refers to when interest raises, all other things being equal, and leads to an increase in other factors resulting in an upward-sloping supply of loanable funds.

### **2.3 Theoretical Concept of Finance**

Literature on finance reveals two broad types of finance available, namely: debt and equity finance. Decision regarding the financing of a project by either debt or equity depends on the characteristics of assets being financed. In the same line of argument transaction cost reasoning suggests the use of debt to finance re-deployable assets and equity to finance non re-deployable/liquidity assets (Williamson, 1988).

Debt finance can be classified into short-term and long-term. Debt finance from microfinance organizations and indigenous moneylenders are usually short-termed with high interest rate and are less appealing for housing construction (Moss, 2003 and Nubi, 2005) and this type of finance is not preferred in developed economies due to the availability of the alternative funding methods (Akinwunmi, 2009) unlike LDCs like Tanzania where source of financing is limited. Equity finance as applied to housing consists of all monies pulled together from actors such as friends, relatives or business entities who are interested in maintaining the house purchased with the money raised (Akinwunmi, 2009).

The common equity-financed model for housing is the Real Estate Investment Trust (REIT) which began in the United States in the 1960s and became popular in the early 1990s (Seiler & Seiler, 2009). REITs are entities that invest in a diversified pool of professionally managed real estate assets which offer a steady rental stream and exposure to capital growth. It allows investors to buy into real estate without a large capital outlay (cf. <http://www.africaammagazine.com/tag/investments/>). There are no prescribed property sector investment requirements, meaning that REITs can invest

across various sectors including retail, office, residential, industrial and healthcare properties. A further requirement is that 75% of revenue received must be direct rental income that may incorporate dividends received from other REIT investments holdings.

The development of residential REITs in the United States is regarded to be the response to the collapse of the housing market in the early 1990s as a result of the falling prices of properties (JCHS-HU, 2003). Moreover residential REITs could be either Equity or Mortgage. Equity residential REITs invest directly in housing and mortgage residential REITs own parcels of mortgages. In Africa, only Nigeria, Kenya and South Africa have REITS or are considering introducing REITs; whereas the benefits of REITs is that, it helps the growth of property market and increase investments in the housing sector together with their flow-through taxation benefits, greater liquidity and capital flexibility, and high yields (*cf. <http://www.africammagazine.com/tag/investments/>*). These calls for the needs of introducing REITs in Tanzania.

#### **2.4 The Concept of Housing finance**

Housing finance is the broad term and can vary across continents, regions and countries in terms of the areas it covers. For example, the conception of the term ‘housing finance’ in a developed country seems to be different from the way the term is being conceptualized in the developing countries. The same difference in conception also appears on the term mortgage. For developed countries mortgage means long-term loan secured on the property acquired by the borrower, while in the Least Developed Countries (LDCs) many households take a mortgage to be a loan secured on a property that can be the loan for a purpose other than acquiring the property, for instance running a business.

This study adopts, as a working definition for housing finance, the definition from section 3 of the Banking and Financial Institutions (Mortgage Finance) Regulations, 2011, which states that:

*“Mortgage/housing finance means a loan granted to a borrower for the purposes of acquiring, improving or constructing a residential property and is secured by the acquired, improved or constructed residential property”.*

Therefore, with the formal housing finance a borrower may decide to secure housing loan from the financial institutions using the same piece of land he/she intend to develop. Hence for the purpose of realizing the objective of this study, the term mortgage finance is used interchangeably with the housing finance.

#### **2.4.1 Major elements of housing finance**

The provision of finance for the purchase of residential housing is, or should be an important part of any society's financial structure. Compared to a household's average income, the purchase of housing unit is a large investment. In many cases it is in fact a household's biggest life time investment. The question of how to finance this investment is therefore a crucial one. Efficient finance for residential housing can encourage a better matching of households' preferences for housing with the available and potential supply of housing, thereby improving social welfare. Further, to the extent that efficient finance encourages more widespread ownership by occupiers, there are likely to be additional social benefits.

Financial transactions, except for self-finance, involve at least two parties. Though financial transactions can attain great complexity, their essence can be portrayed in terms of a simple loan transaction: Party A lends money or resources to Party B at a time “t” and expects to be repaid at some future time “t+1”. Because repayment occurs at a future date, separate in time from initial loan, the lender is generally concerned about the guarantee of repayment. Before making the loan, the lender will want to be assured that the prospective borrower is likely to repay the loan (and any interim interest that is

charged); and even during the period of the loan the lender is likely to want to be assured that the borrower's actions are consistent with timely repayments. But the lender faces problems of "asymmetric information"; the borrower is likely to know more about his or her own proclivities with respect to repayment than does the lender. Consequently, finance is associated with extensive efforts involving pre-loan information gathering and assessment of potential borrowers, and monitoring of actual borrowers during the loan, with institutions and practices arising in order to facilitate these information - intensive processes. In general terms, the process of finance can be described in terms of the informational transparency or opaqueness of the potential borrowers; for example, a young adult who is entering the labour force and who has had no previous financial transactions; he/she has little in the way of a "track record" that can assure a lender as to repayment, and is highly opaque.

There are essentially three major elements involved in any loan as provided in United Nations ( 2005) report viz:

- i. *Origination*: the initial granting and funding of the loan;
- ii. *Ultimate holding and funding*: the eventually holding (and thus funding) of the loan; and
- iii. *Servicing*: the arrangements to facilitate timely payment of principal and interest.

In addition, the lender will want some agreed arrangements for default contingencies: the procedures that will be followed in the event that the borrower fails to make timely payments. Housing finance is no exception to this pattern.

The three elements of finance can all be performed by the same entity: this is often described as "vertical integration". Or they can be separately performed by different "vertical disintegration" entities. Though the former pattern is more traditional and more

common, the latter has grown in frequency with the advent of MBS as a finance alternative.

There are at least eight major ways of providing housing finance (United Nations, 2005):

*a. Owner self-finance*

The buyer – owner provides the finance through prior personal savings; the other elements are irrelevant.

*b. Seller finance*

The seller provides the finance. In essence, the seller accepts payments for the sale of the house in a stretched – out schedule, thereby extending an implicit loan to the buyer. The seller originates the loan, funds it and services it. The residential unit that is being financed will almost always serve as the collateral for the loan, which in this form would be described as a mortgage.

*c. Third-party finance: family or friend*

A family member or friend extends the loan (mortgage) to the owner and thus originates funds and services it.

*d. Third-party finance: a bank or other depository*

A bank extends the loan (mortgage) to the owner and thus originates funds and services it. In turn the bank receives most of its financing from depositors' claims for repayments of their funds are directed toward the bank, not toward the borrowers to whom the bank has extended mortgages.

*e. Third-party finance: an insurance company*

Most insurance companies holding mortgages do not originate them. Accordingly, origination would be by a mortgage banker (an origination specialist), who would sell the mortgage to the insurance company. The latter funds and service it. The insurance

company, in turn, obtains its funding from the premiums paid by its insurers and from any additional borrowing that it may undertake.

*f. Third-party finance: a finance company*

If a finance company holds mortgages, it is unlikely to originate them: again, origination would be by a mortgage banker, who would sell it to the finance company that funds and services it. The finance company's funding, in turn, comes from its borrowing in capital markets.

*g. Third-party finance: Government*

In principle, the Government could provide the mortgage (with either direct origination, or origination by a mortgage banker), with funding ultimately by taxpayers or by government borrowing.

*h. Third-party finance: Mortgage-Backed Securities (MBS)*

The originator either "packages" the mortgage (with other mortgages) into a security, or sells the mortgage to another entity which does the packaging. The "pass - through" security (so called because the borrower's interest and principal payments are passed through to the buyer) is then sold to a party that wishes to hold the security and receive the interest and repaid principal and is thus the funder. The party may be a private investor, mutual funds, a pension fund, a bank, an insurance company, or any other entity which is attracted to the MBS as an investment. The servicing can be carried out by the originator or may be sold to specialist service provider. Since the MBS are securities, they may be readily sold to other investors in a "secondary market".

#### **2.4.2 Housing finance lending risks**

Mortgage lending entails certain risks that have to be properly managed if the business is to be successful. According to a report in a recent study by United Nations (2005); there are several lending risks as discussed hereunder.

First of all, to avoid *legal and/or regulatory risks* in the activity. The existence of an adequate legal environment that supports the housing finance system is an essential prerequisite. Existing legal provisions must secure private ownership of the immovable property and allow that the property title is given as a security for mortgage loan. This system has to be supported by a functioning land registry, which records the history of an immovable good, and by a foreclosure system which enables a lender to proceed to a forced sale in case of non-repayment of the loan. Introduction of the relevant foreclosure system needs to be accompanied by effective enforcement mechanisms.

Certain *macroeconomic risks or market risks* are generally beyond the control of the mortgage lender. High inflation risk, for example, is often seen as an obstacle to long-term housing finance. Variable interest rate loans may sometimes be a more attractive alternative to borrowers than fixed- rate mortgage products, and vice versa.

Another risk relating particular to housing finance is the *volatility of the property price*, that is, the uncertainty of its value as collateral for a long-term loan. This may lead, as in certain transition countries, to a lowering of loan-to-value ratios and a need for additional collateral. Sound valuation rules and prudent management are the remedies against this risk.

Other risks that more directly concern the housing loan providers themselves are *the audit risk and the operational risk*. Audit risk management includes the requirement for an adequate assessment of the customer's willingness and capacity to repay the loan for its duration. It is necessary that the lender uses specific criteria which take into account the characteristics of the local market. Furthermore, in a number of countries audit risk offices have been established which retain data on customers' retails, finance and other accounts to keep track of missed payments. This important support facility for the housing loan sector is, however, still limited or unavailable in most transition countries.

A complication for risk management is unreported income, which is often an important source of revenue but difficult to take into account without formalities. Credit risk management also requires a fair portion of equity. This motivates the borrower to continue to pay, and the lender to recover the damage in case of default. Another element in audit risk management is the availability and use of other kinds of collateral (if necessary). A mortgage insurance programme, as established in certain countries as well as the provision of financial advice to the borrower may help to reduce the default risk.

Of course, operational risks have also to be tackled. Where operational errors and fraud occur, operational costs increase and the business are no longer profitable. Useful tools to reduce these operational risks are the training of staff to increase the efficiency and reduce the potential for the error, the use of technology (which increases the volume of operations and facilitates the collection and analysis of data) and the standardization of documents and operations (which should lead to lower costs).

#### **2.4.3 Obstacles for development of housing finance system**

Similarly, the United Nations (2005) report highlighted the main obstacles for the development of genuine housing financing system in many countries in transition bearing in mind, however, that there are huge differences in this field among different countries:

- i. *Economic obstacles:* such as inflation and slow economic growth in some countries. The demand for market-based housing financing may be delayed even after general macroeconomic stabilization due to specific consumption patterns and other particular factors influencing the demand in countries in transitions;
- ii. *Socio-economic obstacles* such as employment instability, growing unemployment and a slow increase in real wages. Due to their low income, the

overwhelming majority of the population cannot afford to buy housing on the open market and cannot take out a market mortgage loan;

- iii. *Legislative obstacles* such as poor legal framework on foreclosure, property registration, mortgage banking regulations, a new effective (well-targeted) system of social/affordable housing, and so on. Effective enforcement of the law is as important as passing the legislation itself.
- iv. *Cultural obstacles*, influencing mainly the demand for the market-based housing finance (cash economy, clientelism, corruption, quasi-ownership character of rental housing),
- v. *Institutional obstacles* such as low competition between banks (monopolization of mortgage finance) and poor institutional frameworks for capital market and banking control.

## **2.5 Benefits and Rationale of Housing Finance Schemes**

Housing Finance is a major factor determining the quality and tenure of housing consumption, the overall financial portfolio of the public and the stability and effectiveness of the financial system (Diamond and Lea, 1992). Struyk and Turner (1986) and Stephens (2000 & 2002) argue that the housing finance plays an important role in shaping the country's wider housing system. Thus, developing a viable housing finance system is important in the development of any country's economy. For instance Manning (2002) and Akinwunmi *et al* (2007) provide that by the end of 2001, the total volume of outstanding mortgage loans in the European Union (EU) exceeded 3.9 trillion Euros, which translates to around 40 percent of total bank lending in Europe and 40 percent of GDP in the EU. For the case of the United States, Mortgage Intermediation System (USMIS), being the largest and most sophisticated financial system in the world, in the third quarter of the year 2005 had US\$8.8 trillion mortgage being outstanding which translated to about 70 percent of the nominal GDP (Cho, 2007).

Furthermore Kironde *et al* (2003) noted that, different forms of housing finance mechanisms exist due to the following, among other reasons: the cost of acquiring a house is beyond the means of many households; the housing finance schemes help individuals achieve to have shelter as the basic human need; slow pace in constructing houses over a long period by use of household savings makes the resources invested to remain idle for many years without yielding returns, thus the housing finance schemes speed up completion of the houses; people will always want to own houses and then the absence of financing facilities is likely to increase the possibility of using corrupt means to acquire one; investing in a housing and property stimulates savings and increases activities in the construction industry, thus in turn, provides employment opportunities and housing finance scheme are important for urban growth and lack of housing finance schemes generally leads to exclusion of the poor in house ownership option.

Similarly, Nasr (2010) pointed out the importance of housing finance schemes in relation to economic development. Improving housing finance supports economic development through several channels: increasing saving, investment and employment; strengthening and deepening the financial sector; and reducing poverty. In many developing economies, including Tanzania, the lack of a fully functioning mortgage market constrains the development of the housing sector.

Without financing options, low and middle income households cannot afford to purchase homes. Since a house is often the primary investment and savings vehicle for those groups, a lack of housing finance also constrains overall saving rates. Low saving and investment rates restrict economic growth and limit economic development.

International experience suggests that living standards increase when there is widespread availability of home mortgages because mortgages have a positive impact on the quality of housing, infrastructure, and urbanization. Mortgage availability for low and middle income groups encourages investment in both residential property and other real estate (such as retail shops and other small businesses). This, in turn, encourages medium- to

long-term growth. New construction also provides jobs for low and middle income workers. Housing finance also encourages the growth of the financial services sector, which studies have also shown to be a key factor in economic development. If consumers begin to save for down payments and loan repayments, these actions increase both the assets available to the financial services sector, and the demand for more financial services. Additionally, financial markets and intermediaries act as a lubricant in well functioning economies. They perform the crucial task of mitigating information and transactions costs and provide a needed bridge and filter between economic agents of information that otherwise would not be shared. This enables firms to allocate their resources more effectively and increase their productivity, resulting in greater overall economic growth.

Finally, empirical studies show that there is a positive relationship between land distribution equality, poverty reduction and economic growth. More accessible housing finance could lead to more ownership by low and middle income households. Low and middle income households are the most limited in financing options, both because of an inability to afford down payments and also an inability to access capital markets for long-term loans. At the same time, housing is often their biggest expense, accounting for 50 to 70 percent of their budgets (Nasr, 2010). If housing finance can be made more affordable, that will free up resources that the poor can then use for other opportunities, such as starting small businesses. Therefore, improving access to housing finance for low-income households will help reduce poverty, and serve as another channel to increase economic growth.

## **2.6 Empirical Review**

The empirical study by Kironde *et al.* (2003) provides some practical recommendations for implementing the formal housing finance schemes in Tanzania. Among these options include opening mortgage window in existing financial institutions, setting up specialized financial institutions, use of refinancing facilities or the secondary mortgage

market, establishing housing funds, use of Pension Funds, having an independent housing finance institution, use of savings association, building societies, and use of Micro-finance institutions.

### **2.6.1 Opening Mortgage Windows in Commercial Banks**

The option of opening mortgage credit windows within the existing private commercial banks and other financial institutions is a commendable one in the short term. The current levels of interest rates and household income seem to suggest the existence of inadequate volume of business for a specialized mortgage lender. Despite such a situation, commercial banks with mortgage windows seem to have a comparative advantage on this as they can easily cover their overhead costs by operating within the existing banking infrastructure (Kironde *et al*, 2003).

Today some commercial banks which are member of TMRC ( established in 2010) lends some kind of housing financing schemes to the general public though available at hiked interest rate. Equally, some private banks based in Dar es Salaam, for example the International Bank of Malaysia Ltd (IBML) and Azania Bancorp Ltd opened housing finance windows in 2002 charging high interest rate based on market rate. The later bank obtained long-term funding in form of equity from the NSSF and PPF and term loan from PSPF.

### **2.6.2 Refinancing Facility**

On the other hand, in 2010 the Tanzanian government took a step further and established Tanzania Mortgage Re-financing Company Ltd (TMRC). The main task of this company is to provide housing support to commercial banks so that they can provide long term funding at the lower interest rate than what is charged by ordinary commercial banks. The creation of re-financing facilities means having in place liquidity or secondary mortgage facilities. These facilities issue general obligation bonds in the capital market and the proceeds to refinance all or part of the portfolio of primary market lenders. The facilities exist to provide both short and long-term supports to the lenders.

They also enable the capital market to access funds from depository institutions. The facilities have low credit risks, purchasing loans on full recourse or lending on an over-collateralised basis. Usually, the government sponsors and supports their establishment (although it avoids granting an explicit guarantee) in order to provide improved liquidity to the banking sector. The government's support is to facilitate access by banks to long-term funding through the use of more reliable collateral in the form of residential mortgages which are usually referred to as Mortgage-Backed Securities (MBS)

The preconditions for establishment of the refinancing facilities are the existence of a primary housing finance system to originate and service mortgage debts; and the existence of investment balance such as those held by the pensions and social security funds. Also the refinancing facilities require an institutional set-up separate from the primary mortgage market. These may be agencies or secondary mortgage institutions aim at linking primary mortgage institutions to the capital market and bringing together buyers and sellers of debt instruments. Apart from these refinancing facilities, there are mortgage securitization and portfolio lenders

*Mortgage Securitization* is the most recent approach of the secondary mortgage market. The approach takes the advantage of the development of the bond market. Under the mortgage securitization, the ownership of a pool of mortgage is transformed into securities or MBS, which represent specific claim of cash flows from these mortgages. These debt obligations are owned by a very narrowly established legal entity, usually a trust created under the securitization law. In the U.S.A they are established under a trust or company law. The MBS are sold through dealers, and have to compete with treasury bills and other corporate bonds. Investors are normally pension funds and insurance companies. In the U.S.A. the key dealers or pass through are mainly the government-sponsored enterprises (GSEs) that include, Federal National Mortgage Association (Fannie Mae) established in 1938; the Government National Mortgage Association

(Ginnie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mae) both created in 1970.

*Portfolio Lenders* is the approach whereby the banks issue mortgage bonds and act as pass-through of cash flows. A portfolio lender is essentially a large pool of mortgages and other assets against which debt obligations in the form of bond-like instruments or deposits are written. These institutions are large companies operating with substantial capital, taking both operating and financial risks. They usually offer a number of mortgage services, that is, originating, servicing, funding and taking credit risk, which in the securitization approach are often done by different institutions.

Re-financing facilities does not create housing loans themselves, but instead facilitate the flow of funds from long-term institutional investors to primary private lenders. For example, use of pensions and social security funds for long-term mortgage. Their establishments also help pension funds obtain good return in their investment. In Ghana for instance, the refinancing role is handled by HFC, created in 1990 to initially operate as a special purpose vehicle.

As a way towards strengthening refinancing facility strategy in Tanzania a 165bn/- mortgage financing agreement between seven banks (CRDB, ECO Bank, Tanzania Investment Bank (TIB), BancABC, NMB, Commercial Bank of Africa and Azania Bank), two financial institutions (Local Authority Pension Fund (LAPF) and Shelter Afrique) and National Housing Corporation (NHC) for the construction of houses was signed in June 2012<sup>1</sup>. Despite being a mortgage financing agreement it has limitation as it only aims to support the public landlord (NHC) and leaving aside individual households. Somehow in late October 2011, EXIM Bank Tanzania came up with what is

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<sup>1</sup>Available at <http://www.ippmedia.com/frontend/index.php?l=43233> as viewed on 3<sup>rd</sup> July, 2012

known as home loan product to enable the public get better housing through mortgage facilities. The bank's Public Relations and Marketing Manager, Linda Chiza, said:

*“The absence of a competent financing system over decades has forced people to build houses using own savings, adding that it takes an ordinary Tanzanian up to 10 years to complete a house using own savings”<sup>2</sup> .*

EXIM Bank Tanzania intends to provide between 30m/- and 350m/- for customers who are willing to purchase or renovate houses upon meeting the desired conditions, among them having the title deed. Further the EXIM Bank provides:

*“This will be given with competitive interest rates without hidden charges and we have decided to give a long tenure of up to 180 months to ease the installment burden. Our intention is to enable various segments of people own houses without much hassle”.*

Despite the good intention of EXIM Bank to support individual households, the most critical issues on the part of the banks are the question of hiked interest rate charged, security required and proximity of the banks to those who need such financial services.

### **2.6.3 Specialized Housing Finance Institutions**

According to Kironde *et al* (2003) the development of a specialized housing finance institution or primary mortgage institution is a second step towards evolving a housing finance in Tanzania. Since lending for housing is regarded as risk, private investors may be reluctant to venture into this business unless the government provides some level of support. The support suggested by Kironde and others includes enabling the private sector to access long-term funds from government owned institutions such as the NSSF, PPF, LAPF, PSPF, insurance companies and proceeds from sales of its housing stock.

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<sup>2</sup>See on <http://www.dailynews.co.tz/business/?n=26595&cat=business> as viewed on 9<sup>th</sup> July, 2012

The envisaged specialized housing finance institution must be a private institution operating on a commercial basis. Government-owned institutions as investors could participate as either minority shareholders or providers of long term financial resources to avoid having such institutions face similar problems like those that beset other parastatals including the defunct THB (Kironde et al., 2003).

#### **2.6.4 Housing Fund**

Housing funds are created through voluntary, compulsory or contractual savings and savings from institutional investors. In Ghana for instance, voluntary and contractual savings mechanisms are used to elicit housing funds from households and corporate bodies. These savings are deposited in the HFC –Unit Trust and Real Estate Investment Trust (REIT) while investors in these two funds are provided with appropriate tax incentives. In Nigeria, the housing funds were created through mandatory savings from employees, insurance companies and commercial and merchant banks. These savings, however, attract rates that are fixed below market interest rates.

#### **2.6.5 Independent Housing Finance Institution**

The Independent Housing Finance Institution (IHFI) could be established as an apex housing finance institution with a role of administering the housing fund, lending funds on wholesale basis; regulating the primary mortgage lenders and guaranteeing and insuring loan stocks of the primary lenders. In Ghana, this role is played by the Housing Finance Company(HFC); and in Nigeria by Federal Mortgage Bank of Nigeria (FMBN). Since the IHFI plays a key role in the housing finance system, it has to be created with Government support and at time with Government funding. Kironde *et al* (2003) recommended that, although creating such an institution is desirable in Tanzania, its creation should be looked at from the longer-term perspective

### **2.6.6 Savings Associations or Building Societies**

There are no saving associations or building societies engaged in housing finance in Tanzania. In Zambia, building societies, credit unions and saving associations are active providing housing loans. In Kenya, there are several building societies including the Kenya Building Societies (KBS) and East African Building Societies (EABS) providing finance for housing.

In Tanzania, savings associations and building societies providing housing loans could be established under the Cooperative Societies Act of 1991, which superseded the Cooperative Act of 1968. In recent years, several rural –and urban-based SACCOS have been formed by groups of people as micro-finance entities. These associations mainly focus on promoting savings and credit are recognized as financial institutions under the Financial Institutions Act No.12 of 1991 regulated by the BOT. A number of these SACCOS are currently being supported by banks. It might take some time before the activities of SACCOS can make an impact in housing finance because the existing ones especially those that are rural-based are under-capitalized, poorly organized; lack a saving component; lack qualified personnel; and mostly registered for other purposes.

### **2.6.7 Micro-finance for Housing**

Micro-finance for housing is essential if the low and middle-income people have to be reached. Under the conventional lending practices, these groups are unable to access housing credits as lenders deem them high risk because of a multitude of problems that include the following: lack of verifiable or regular flow of income and acceptable collateral; high transaction costs in relation to the small size of loans they need; and a belief that the poor will not repay their loans

Lack of formal sources of finance for most low and middle-income households in the developing countries, including Tanzania, has forced homeowners to build their own

houses on the basis of what Sa-Aadu (1999) terms as unproductive incremental method of house construction. The problems of incremental house construction motivated Ferguson (2002) to advocate for a new housing provision and finance paradigm. Ferguson argue that the form in which long term mortgage finance practiced in the developed countries is not well suited for the circumstances of the developing countries because commercially built houses are expensive and unaffordable to the low and medium-income groups.

The low affordability is a result of low household income levels; high house prices caused by distortions in land and housing markets; and the high cost and scarcity of long-term finance. Besides, the instability of income, the commitments to make large regular payments for long periods of 15-30 years, is risky for the families in the said income brackets. Ferguson, therefore, calls for the recognition of a new paradigm based on the acknowledgement and support of incremental house construction method through micro-finance.

Micro-finance for housing involves provision of small loans to low and medium income households for self-help home improvement, expansion and new construction of basic core units. The best practice in housing micro-finance involves loans at unsubsidized interest rates, short- or medium-term(usually 2 to 8 years), with a range of collaterals that include co-signers, para-legal title as well as full legal ownership, durable goods and pension fund contribution. In Tanzania, housing micro-finance could be undertaken by the National Micro-finance Bank (NMB), non-bank financial institutions, commercial banks and non-governmental organization (NGOs).

## **2.7 Mortgage Financing in Tanzania**

Since independence in 1961, housing featured heavily as part of government policy. Initially the policy was of universal state provision of housing in rural and urban areas, but as this proved unaffordable, the policy was changed in 1972 towards a slum improvement program. The Government also encouraged self-construction through the

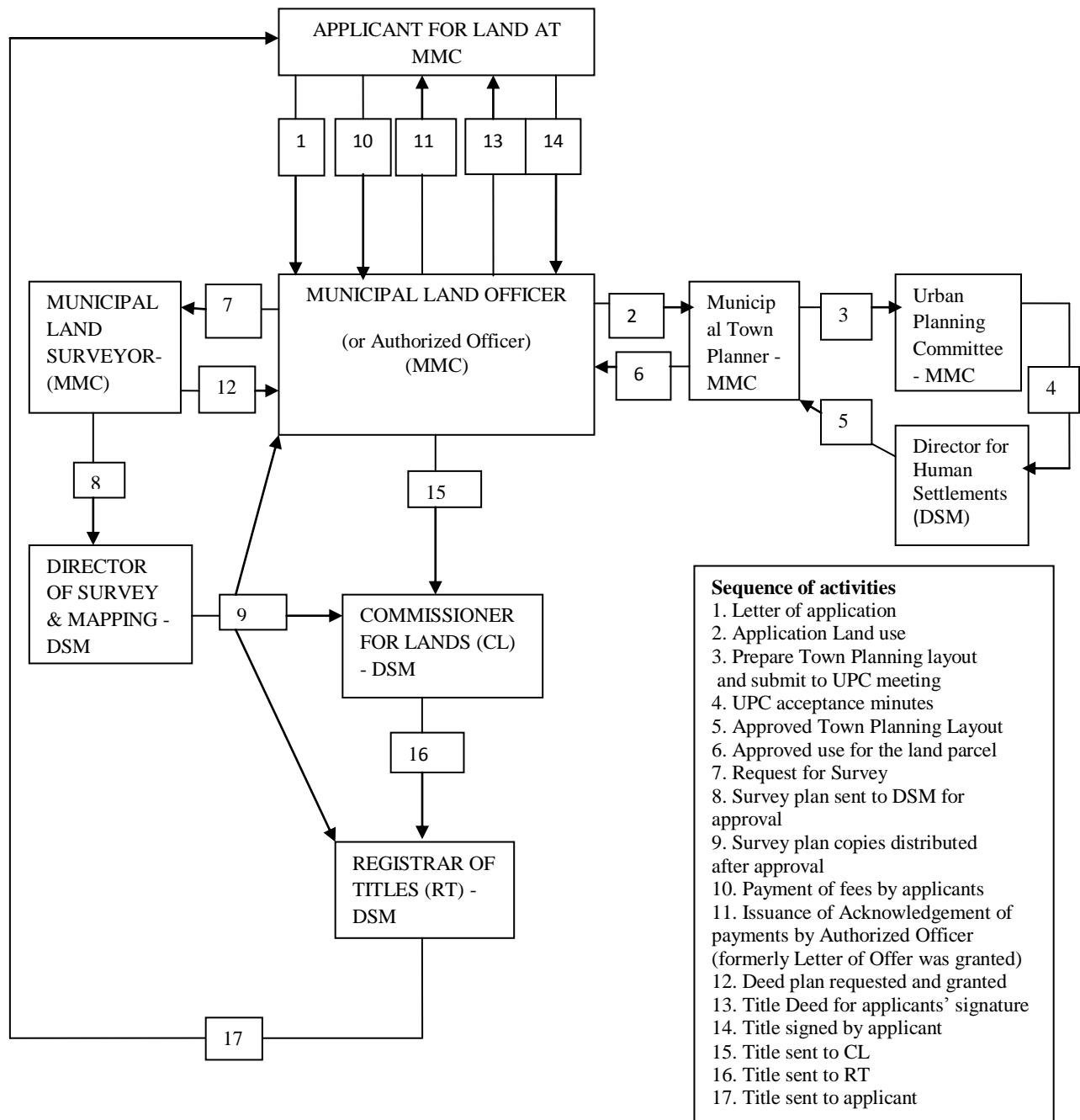
provision of land and subsidized credit finance. It established the Tanzanian Housing Bank (THB) in 1973 for this purpose. THB provided around 14,000 mortgages until its demise in August 1995. As aforesaid under chapter one, since the collapse of THB, there has been no widespread provision of effective formal housing finance institution in Tanzania.

Since the beginning of the 1990s' considerable effort has been expended in improving the financial services sector, most notably through the financial sector liberalization and reform program implemented following the adoption of the Banking and Financial Institutions Act of 1991.

Empirical evidence in Tanzania shows that financing from institutional sources is becoming more and more difficult to find and is very costly. Kironde *et al*(2003) noted that, under mortgage finance arrangement, commercial banks are very conservative and only lend money to the borrower with adequate collateral and one able to meet loan repayments, a condition not many can meet in both the formal and the informal construction sector. Since construction is perceived as a high-risk venture, lending institutions are reluctant to extend credit to those requiring such funds unless they can provide sufficient security including title deed which involves long process for one to get.

Practically, there are several steps involved for one to process a title deed on un-surveyed land which in one way or another results into majority Tanzanian to disqualify for a loan since they lacks such important collateral. The following provide detailing steps including application procedures, preparation of TP drawings, Surveying, payment for required fees and acceptance (formerly Letter of offer), preparation of Certificate of Title, registration, grants and other incidences associated with the grant. Figure 2.4 provides seventeen detailed steps in the acquisition of title for un-surveyed land as adopted from Lugoe (2008) with some modification

**Figure 2.4: Seventeen steps in the acquisition of title for un-surveyed land**



**Source:** Adopted from Lugoe (2008) with some improvements by author

Despite of the above stringent process, the Government of Tanzania has tried to cope with the perceived demand for plots in various ways. In more recent years, Government has attempted to address itself to urban land delivery and land use problems through a number of initiatives. These include: (i) the Sites and Services Schemes, SSS; (ii) the 4,000 Plots Project (Morogoro, Mbeya and Mwanza) (iii) the 20,000 Plots Project (Dar es Salaam) (iv) Property Adjudication and Registration in Irregular Settlements of Dar es Salaam (Mazagazaga); (v) Land Reform Component of the Private Sector Competitiveness Project; and (vi) the Property and Business Formalization Programme (PBFP) or “Mazagazaga”.

## **2.8 Views Regarding Establishment of Formal Housing Financing Schemes in Tanzania**

Oriaro (2000) argues that the loan issued by commercial banks goes mainly to middle and high income households and is concentrated exclusively to homeowners in the urban areas. Low-income households are unable to qualify for such loans due to stringent lending terms that include high qualifying incomes and high interest rates.

Moreover, Kironde (2009) has the view that the central government has not pushed for housing to be a priority alongside health and education, nor has it instituted machinery for mobilizing finance from all sectors for housing finance. As a way to react against the notion that the government in Tanzania sidelines housing issues established The Tanzanian Mortgage Re-financing Company Limited (TMRC) in 2010. As results, in June 2012, there are several banks which have joined forces with the National Housing Corporation to launch a housing finance scheme which is ostensibly designed to enable Tanzanians to own houses. However, observers remain skeptical about the efficacy of the arrangements. At the centre of the skepticism are the crucial issues of interest rates, security required, affordability and lack of knowledge on housing finance schemes. Dispelling the skepticism, Nehemia Mchechu, NHC Director General, has the views which seem to suggest that the housing finance is a new thing to the communities and

when the banks join forces to finance housing there is a danger that this act is likely to dilute the competition and hence increasing lending rate<sup>3</sup>.

## **2.9 Housing Situation in Tanzania**

Several scholars highlight that urban development and housing is the most visible indicator of social wellbeing and it is politically important for governments to guarantee reasonable standards of housing for the majority of the population (Nasr, 2010). In addition, housing is a large part of the economy, typically greater than 20 percent of GDP; and has a strong multiplier effect. However, there has been a persistent gap in developing world between incomes and the cost of new housing especially to the low and middle income level.

TBA (2006) noted that in property market (i.e. demand for and supply of rental and ownership of dwellings units) the *housing demand* is influenced by: rate of urbanization (emerging markets), new households formation, household incomes and wealth, income stability (demand for ownership), types of property rights, availability and cost of housing finance, taxation and subsidy policies (rent vs. own), housing/neighborhood risk, rent risk and shift in demographics ( including population growth, aging population, increasing household size, demand for rental units, increasing mobility and labor market insecurity)<sup>4</sup>.

On the other hand, *housing supply* is determined by: efficiency of housing finance industry; construction and mortgage, availability of serviced land, efficiency of property rights and registration systems, efficiency of regulatory system, organization of construction industry, availability of labour and building materials.

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<sup>3</sup> See <http://www.businesstimes.co.tz> as viewed on 15<sup>th</sup> June, 2012

<sup>4</sup> According to National Population Censer held in 2012, today Tanzanian are about 45 million people

With few or no housing options in the formal sector, the vast majority of the population—over 70 percent in urban area resides in informal settlements. The typical form of tenure here is rental. A study in 1990 indicated that tenants make up 73 percent of households (Hoek-Smit, 1991 as cited in Kironde *et al* , 2003). These include not just the poor, but a substantial proportion of lower and middle income households.

Kironde *et al* (2003) pointed out the performance of the real estate sector by examining the activities in the formal and informal construction industry, the demand and supply of land (there is an annual demand for plots of 150,000 against an annual supply of 8,000 plots). The authors explained that few Tanzanian can afford to service a full mortgage, and as results most houses are developed slowly over time. There are no formal real estate developers in the country except for the NHC.

The absence of the primary mechanism used in a country to finance private ownership of residential and commercial property already has adverse effects, including the ongoing sprouting of unplanned and un-serviced settlements. Landlords too have been taking advantage of the vacuum to charge exorbitant rents and demand lump sum payment of between six and 12 months, which most lower and middle income households cannot afford to pay.

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 (Mutero, 2010). 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. According to FinScope (2011); only 5 per cent of Tanzanian has access to formal finance of whatever

kind<sup>5</sup>. As a result, most people build their houses incrementally over many years as resources become available.

Urban housing is particularly challenging for a number of reasons: the need to house a rapidly growing number of households, most of them are 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 and the housing situation is not as dire. There is practically no housing market in these communities, as in most of rural area, 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. 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 finance provision, 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. Earlier completion of dwelling unit could either enable the households no longer paying house rent or generating income if their property let to tenants.

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-

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<sup>5</sup>See [www.finscope.co.za](http://www.finscope.co.za). 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.

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.

In Algeria for instance, the increase in the population growth in the 1980s highlighted the issue of housing shortages. By 2005, the total housing stock in the country was 5.9 million units as compared with 5.02 million units in 1998 and 3.6 million units in 1987 (Abdelkader, 2008). A number of constraints affecting supply and demand caused the unsatisfactory situation in the Algerian housing market. There are two kinds of mortgage registration in the land registry office for the granting of mortgage loans. Some of the steps taken by the government to boost house finance activity include creating a secondary mortgage facility, promoting competitive access to banking loans, and introducing adjustments to the existing legislation on mortgages (Abdelkader, 2008). Today some mechanisms have been adopted by Tanzanian government, which seems to enhance development of housing sector in a country.

## **2.10 Repercussions of the Global Financial Crisis of 2008 on Tanzanian property market**

Tanzania's financial sector and to a certain extent the mortgage finance has so far not suffered any direct significant effects from the global financial crisis. To a large extent it is insulated from global capital markets due to the lack of foreign borrowing or foreign capital flows in the banking sector. Banks have continued lending to each other and liquidity remains reasonable in the sector. The banking sector has a relatively low loan-to-deposit ratio, which limits any propagation effect of the original shock, and hence eliminates the possibility of any systemic crisis. This was the result of conservative

lending policies following the restructuring of the banking sector and the adoption of the financial sector reform program. The banking system also has a limited exposure to troubled financial institutions and no direct exposure to risk derived from the financial innovation and unmonitored risk-taking of financial institutions in developed economies.

However the real estate sector has not been immune from global contagion. The Tanzanian property market has been one of the first casualties, with a rapid slow down in transactions and a slight fall in property prices. Market participants suggest that strong demand remains for real estate and that investors and buyers are just holding back waiting for the economic situation to stabilize. A property price bubble may have just been forming with a rise in speculative demand. Property prices are reported to have fallen in the region by 30 percent over the year 2009 and mortgage transactions have dropped significantly since September 2008.

It is also worth noting that there is absence of securitization in Tanzania to date. The way securitization instruments were used was one of the root problems of the sub-prime crisis in the US as it caused a misalignment of incentives and information between investors and originators. The secondary market solution in Tanzania today focuses on TMRC, which is a simple and transparent institution modeled on the Federal Home Loan Banks. There is no off-loading of credit risk and the originator still bears the full burden of any loss. Whilst there will always be an element of risk in any lending activity, the regulators in Tanzania should minimize risks and introduce best international practice as well draw on the lessons from the US subprime crisis.

### **2.11 Gaps in literature**

From the theoretical and empirical literature review that has been elaborated above, it can be argued that little has been done regarding the proper way of including large segment of low and middle income house developers to resort into housing financing schemes.

Kironde *et al* (2003) pointed out that today, the formal housing construction sector in Tanzania is very small and is largely being undertaken by the public sector either through the National Housing Corporation (NHC), the Tanzania Building Agency or through the parastatal pension and social security funds. The private or “organized” developed builder market is virtually absent. Reasons cited by real estate developers for the lack of organized multifamily residential development in Tanzania mainly is lack of access to finance. Moreover the Minister for Lands, Housing and Human Settlement Development, Prof. Anna Tibaijuka notes as follows:

“The absence of mortgage financing system has adverse effects on our country’s economy ... the majority of Tanzanians have been forced to build their houses incrementally through (their) own savings”<sup>6</sup>.

Other than the study conducted by Kironde *et al* (2003), we have not been able to identify other similar studies in Tanzania. The study was conducted even before establishment of the current legal framework in 2008 and TMRC in 2010. This is a gap in the literature that needs to be filled under current situation where housing financing schemes introduced by commercial banks.

The study under investigation has certain identical features as the Kironde *et al* (2003) study regarding empirical review. However they differ in its situation (legal framework) and the timing as Prof. Kironde’s study was conducted about ten years ago. In that study, the crucial issues like interest rate and conditions attached to the current housing financing schemes did not covered explicitly. They also differs in the methodology adopted.

By considering the aforementioned factors, it is within this context that the researcher was motivated to conduct the study regarding assessment of the efficiency and

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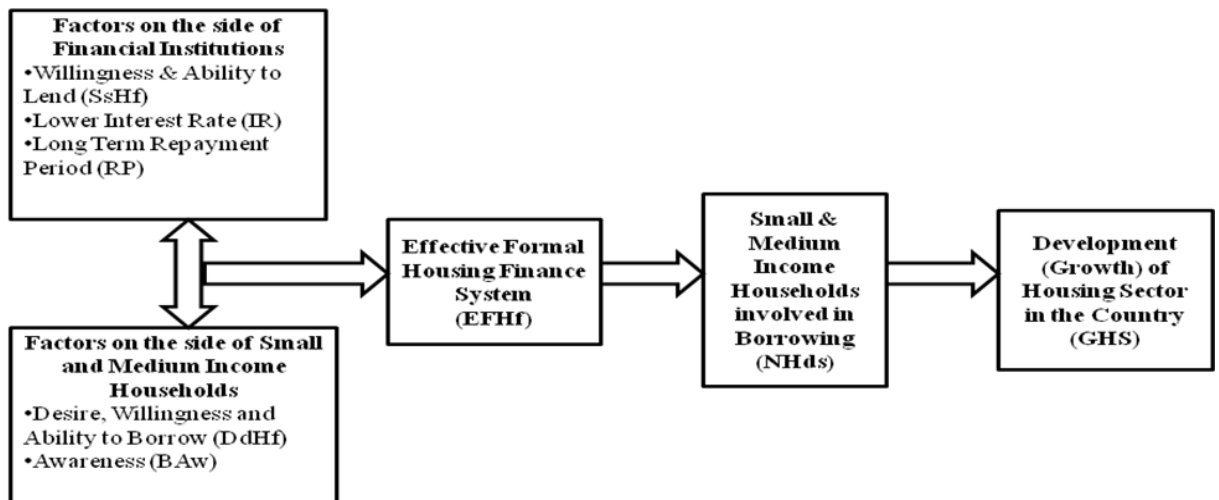
<sup>6</sup> Visit <http://af.reuters.com/article/investingNews/idAFJJOE79U0F920111031> as viewed on Monday Oct 31, 2011

effectiveness of the housing financing schemes introduced by commercial banks in recent years for the growth of housing sector in a country.

## 2.12 Conceptual Framework

Housing finance is a critical factor in generating housing demand, yet it seems to be severely limited in many countries. Literature shows that housing is an important sector in the macro-economic set-up of a country. Investing in a housing and property stimulates savings and increases activities in the construction industry that, in turn, provides employment opportunities. Thus, housing finance has enormous backward and forward economic linkage. It was noted by McBride (2010) that, the best leading indicator for the economy has been housing. Figure 2.5 is a conceptual framework which illustrates the growth of housing sector through effective formal housing finance mechanism.

**Figure 2.5: A Conceptual framework on the growth of housing sector through effective formal housing finance schemes**



**Source:** Developed by the Researcher (2013)

The conceptual framework in Figure 2.5 is developed for the purpose of analyzing the relationship between development of housing sector and effective formal housing finance schemes in a country. The assumption is that the effective formal housing finance system is determined by the factors on the side of financial institutions and those on the side of low and middle income households. These factors are, on one hand, the willingness and ability of the financial institutions to lend (after scrutiny of the conditions put forward) at low interest rate, long term loan repayment period and on the other hand, the desire, willingness and ability of households to borrow as well as awareness of low and middle income households on the available arrangements. The proposition is that when these factors are in favour of the growth of housing sector in the country, that means the number of low and middle income households involved in the transaction will increase.

Mathematically the whole idea can be expressed as follows:

$$GHS = f(EFHf) \dots\dots\dots(4)$$

If  $EFHf = f(IR+RP +DdHf+SsHf +BAw+ NHds) \dots\dots\dots (5)$

It follows therefore that;

$$GHS = f(IR+RP +DdHf+SsHf +BAw+ NHds) \dots\dots\dots (6)$$

**Whereas:**

- GHS = Growth of Housing Sector
- EFHf = Effective Formal Housing Finance
- IR = Interest Rate
- RP = Repayment Period
- DdHf = Demand for Housing Finance
- SsHf = Supply for Housing Finance
- BAw = Borrowers' Awareness
- NHds = Number of Households in Borrowing

### **2.12.1 Dependent Variable**

The growth of housing sector is the dependent variable in this study. Kironde *et al.* (2003) provide that between 1964 and 1969 the shortage of housing units was around 21,000 in urban areas. The number rose to 25,000 between 1969 and 1974 and it was 300,000 in 1982. In 2003 the Ministry of Lands estimated the housing shortage in the urban areas to be above 1.2 million. Whereas the recent research by the Ministry of Lands reveals the shortage to be three million units (cited from [www.businessstimes.co.tz](http://www.businessstimes.co.tz) and The Guardian on Sunday dated 03<sup>rd</sup> – 09<sup>th</sup> March, 2013)<sup>7</sup>. It was noted in that research that in order to cover the shortage of three million house units a supply of 200,000 units is required annually, however only 15,000 units are being constructed. The assumption here is that effective formal housing financing scheme is likely to be a strategy for coping with the shortage of housing units.

### **2.12.2 Independent Variables**

The efficacy of formal housing finance systems as independent variable has been operationalised using the following dimensions (*see equation 5 and 6 above*):

#### **Formal versus Informal Housing Finance Supply**

For the land market activities informality means the operations are outside the purview of the central government macro-economic policies (Montiel *et al.*, 1993 and Soyibo, 1995). The growth of the informal financial system in the emerging economies seems to occur in the shadow of the formal financial system that is viewed as being underdeveloped (Lundberg, 1979; Cheng, 1986; Fry, 1988; Wade, 1990 and Levenson & Besley, 1996). This study, therefore, considers the main indicators of the *effective formal housing finance scheme* to be lower interest rate ranging between 4 percent to 14 percent, to involve long term repayment period ranging between 10 -30 years and the loans should be borrowed purposely for constructing, buying or renovating a house.

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<sup>7</sup> See Appendix V

### **Interest Rate and Loan to Housing**

The housing financing approach views the interest rate as being determined by interaction between the supply and demand for housing funds (Pilbeam, 2005; Nwaoba, 2006; Akinwunmi *et al*, 2008). Interest rate is the rate of return on investment. When the rate of interest is low on mortgage lending, there is a tendency for the financial institutions to look for an alternative investment outlet in order to make good profit. However, financial sector experts recommend that the reasonable mortgage rate should be less than 14 percent (Weiss, Post and Markery 2002; Hassanein and El-Barkouky, 2009, Akinwunmi, 2009).

When the banks charge between 15 - 20 percent on the loans to housing, they are creating room for default by the borrowers (Akinwunmi, 2009). Lowering interest rates in the economy will lower mortgage interest payments, making cheaper borrowing costs. Therefore lowering the interest rate by the housing finance institutions at the range between 4% - 14% is assumed to be appropriate to encourage a large segment of the low and middle income households to borrow and this is likely to be a determinant of effective formal housing finance system (Akinwunmi, 2009).

### **Long Term Repayments Period**

Housing is a major purchase that requires the long-term financing. Ball (2003) provides that the housing purchase is affordable only when payments can spread over time. According to Cranston (2002) and Heffernan (2003) terms for the loans vary from short-term (1- 5 years) through long-term, which may have a tenure ranging from 10 to 30 years. Thus, long term repayment period seems to enable many households to acquire dwelling units.

### **Supply for Housing Finance**

Financial institutions have two aspects to their lending operations. One is the ability of the financial institutions to lend (Akinwunmi, 2009). The ability of financial institutions

to lend for housing determines the quantity of housing finance that may be supplied. Ghosh and Parkin (1972) note that the faster reserves grow, the faster can total assets grow and the desire is there for the banks to accumulate reserves. If the reserve is accumulating, therefore the capital base of the banks will be growing and the ability to lend will be there to make more profit. The second aspect is the willingness of the financial institutions to lend after scrutiny the conditions put forward towards mortgage acquisition. The factors which are considered by the financial institutions include criteria of security (like title deeds), income, price of the property, price of alternative goods and services and household characteristics like age, marital status, employment status, education etc (Akinwunmi, 2009).

### **Demand for Housing Finance**

Demand for the housing finance implies three things namely: desire to acquire, willingness to pay and ability to pay the money borrowed. Regarding demand for housing finance, Akinwunmi (2009) provides that the most important factor to be considered by the banks is the ability of the borrower to repay the money borrowed. Therefore, high demand for the housing finance reflects high growth of the housing sector.

### **Number of Households Accessing Housing Finance Products**

Large portion of households that have access to housing finance products shows the growth of the housing sector.

### **Borrowers' Awareness**

Availability of housing finance from financial institutions is one thing, and the borrower's awareness is the other thing. Financial institutions may have the ability and willingness to advance housing funds to the borrowers imposing friendly conditions. But, the problem could be lack of awareness on the side of the households regarding the transaction. This results into slow pace in developing the housing sector.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the framework for carrying out the study. This methodological chapter provides the following: the study approach, the research design, area of the study, sample size and sampling procedure, the methods for the data collection, analysis and interpretations.

#### **3.2 Research Approach**

The paradigm adopted in this research had the intention of shaping the assessment of the efficacy of housing financing schemes from the perspective of the selected financial institutions (see Kuhn, 1962; Lakatos, 1970, Denzin & Lincoln, 1994). This being the case then the use of multiple methods was considered of a great help in achieving greater understanding of the efficacy of the housing financing schemes (Tobin & Frazer, 1998). The mixed methods approach was used to integrate and synthesize multi-methods both quantitatively and qualitatively as advocated by Tashakkori and Teddlie (1998). Mixed methods approach was regarded to be appropriate for the purpose of this research and aimed at identifying and assessing the efficacy of the formal housing financing schemes for the development of housing sector in Tanzania. Through mixed methods, the study managed to collect both quantitative and qualitative data whose analysis provided the better understanding of the phenomenon being studied (Onwuegbuzie & Leech 2006; Creswell 2003; and Lincoln & Guba, 1985).

#### **3.3 Research Design**

A research design represents a sequence of pragmatic aspects of the way the research was conducted. In a more elaborate way, a research design is “a programme that guides the investigator in the process of collecting, analysing and interpreting observations. It is a logical model that allows the researcher to draw inferences concerning causal relations

among the variables under investigation” (Nachmias & Nachmias, 1996). The discussion in this section therefore presents the process of how the research was conducted.

The nature of the research problem desired an inquiry of the efficacy of housing financing schemes so as to answer the questions like “how” do SMIHDS finance their dwelling units?. A case study approach was considered appropriate in understanding the effectiveness and efficiency of housing financing schemes provided by financial institutions . Yin (2003) asserts that case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon with some real life context. A case study has been defined as:

*“an inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. The case study inquiry copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result benefits from prior development of theoretical propositions to guide data collection and analysis” (Yin 2003).*

The main purpose of the study was to assess the efficacy of formal housing financing schemes for the development of housing sector in Tanzania. Accordingly the patterns of financing housing construction by low and middle income households were explored in order to understand how SMIHDS finance their dwelling unit. Consistent to the case study definition, the conditions attached to housing financing schemes developed by financial institutions was viewed a phenomenon, taking place in real life context; hence it qualified to be explored using case study strategy.

Furthermore, the case study strategy was considered appropriate for this study for it allowed direct observation of the events being studied for instance the stages of property development in the area and interviews of the persons involved in the events. Through

direct observation of the level of property development and through interviewing property owners, sub-ward (Mtaa) leader and land officers it was possible to gain understanding of the picture on the opportunities inherent to HFS, the mode of housing financing in the area, extent of accessibility to HFS and the challenges of implementing HFS.

Unlike the experiment, survey and history strategies, the case study was seen to have a unique strength that enables the investigator to use a variety of methods of data collection. According to Yin (2003), case studies need not be limited to a single source of evidence since most of the better case studies rely on a variety of sources. In this study of the efficacy of HFS, documentary evidence, interviews, direct observations as well as a survey were used as methods of collecting evidence. In so doing the study managed to make triangulation of information and data. Thus, evidence to inform the case study was collected from Mlimakola area. The survey was conducted in both two settlements namely Block “A” and “B” .Information on the side of financial institutions was gathered from NMB, CRDB, CBA, Azania and LAPF.

### **3.4 Study Area**

The study was conducted at Mlimakola area in Morogoro Municipality. Mlimakola area is found in Kichangani ward within Morogoro Municipality which is the Headquarters of the Morogoro region. Morogoro municipality is one of the oldest towns in the history of Tanzania (by then Tanganyika), used as a stopover and route for slave caravans from the hinterland to the coast along the Indian Ocean

*(See [http://www.morogoromc.go.tz/about\\_us/index.php](http://www.morogoromc.go.tz/about_us/index.php)).*

The name ‘Mlimakola’ had its origin from the Greece known as Scholar-sticker around 1940s during colonial era. Scholar-sticker stayed at the hill situated on the left hand side of the way to Benard Bendel Primary School off the Old Dar es Salaam road. This person, whose name was compounded to form the name of the area (Mlimakola),

involved with the cultivation of both food and cash crops around the hill. The neighbours, mostly from the indigenous Luguru tribe around Kigurunyembe, referred the hilly “Mlima” and Scholar-sticker as “Bwana Kola” hence the name of the area “Mlimakola”.

It was around 1984 when the Regional Commissioner of Morogoro by then allocated land to some people under the operation “nguvu kazi” on abandoned “Mwananchi Sisal Estates” at Mlimakola (See Appendix II). The promise attached to the RC’s allocation of land was that when these lands became part of the planned area, those who had cleared the land would have priority in the allocation of plots. The area was cleared and surveyed at the end of 1980s<sup>8</sup>; hence it is among of new planned residential area in Morogoro municipality that has been developing since the 1990s. Although, initially Mlimakola inhabitants were mainly of the Luguru tribe, the composition of the current population is getting more cosmopolitan due to the influx of workers, businessmen and fortune seekers from different regions of Tanzania, as well as from outside the country.

The settlement comprises a mix of large and medium sized plots recently gaining high value alongside Forestry plots. They are largely developed with some medium quality and spectacular properties. However the area has been developed with many medium standard properties amid lack of infrastructure services but individual efforts have made possible availability of utilities like water, roads and electricity in the settlement. At least each plot is accessible through compacted rough roads constructed by collective efforts of people living in the area serve for the main Old Dar es Salaam road which made of tarmac since 1953.

Types of houses developed in Mlimakola area depict more features of relatively low and middle-income category of people with only few high income earners. By virtue of

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<sup>8</sup> About 95% of Mlimakola area was surveyed. The small portion of say 5% was un-surveyed following the resistance of indigenous to surveyors who established resident during colonial era. Un-surveyed part represents other unplanned settlements highlighted in the text.

being close to the Morogoro town centre, substantial populations of academicians (from JUCO, SUA and Mzumbe University) have developed properties in the area. Furthermore a good number of highly positioned government officials including RPC, RSO, RC and retired officers are found in the settlement.

The essence of selecting this area was that, about 95% of the area was surveyed and plots allocated in early 1990s; however only few plots were developed contrary to laws governing land occupancy. One of the conditions is that, the plot occupiers is required to make necessary development within three years. The contrary seemed to the situation in this area.

Since the plots were allocated, almost 20 years have gone and the records from MMC (Land Division) revealed that out of 845 plots allocated (that is 280 for Block A and 565 for B) to-date only 268(32%) plots have been developed and being resided, 488(58%) are incomplete property being at different stages including foundation, lintel etc. and some have been abandoned; and 89(10%) have not been developed at all. This situation seems to suggest that majority (58%) plot occupiers have strived to build houses but completing them is a challenge given the provision of the law about the time they are required to make the necessary development on the plots. In this area, some structures have been abandoned for long time with little hope of being completed. Therefore, it is this area which believed to be the relevant case study for revealing a clear picture regarding the development of housing sector in other areas of similar nature in Tanzania.

Despite choosing Mlimakola as a case study, there was a need for this research to gather useful information and data on housing financing schemes from nine (9) financial institutions which recently signed a mortgage deal with NHC. These institutions include seven (7) commercial banks (CRDB, ECO Bank, Tanzania Investment Bank (TIB), BancABC, NMB, Commercial Bank of Africa and Azania Bank) and two (2) non- banks (Local Authority Pension Fund (LAPF) and Shelter Afrique.

### **3.5 Study Population**

In any scientific study, it is vital to define the population upon which a sample is drawn. Population in this study, being a group of individuals according to Kombo & Tromp (2006), includes 845 plot occupiers at Block A and B Mlimakola area, nine institutions (CRDB, ECO Bank, Tanzania Investment Bank (TIB), BancABC, NMB, Commercial Bank of Africa, Azania Bank, Local Authority Pension Fund (LAPF) and Shelter Afrique) recently signed a mortgage deal with NHC.

### **3.6 Sampling Procedure and Sample Size**

Cluster and purposive sampling methods were used to select the required sample for the study. Purposive sampling was used to target a group of people believed to be reliable for the study (Kombo & Tromp, 2006, Saunders, 2000). Purposive or judgmental sampling was used in this study to select plot occupiers at Mlimakola Block A and B and financial institutions signed a mortgage deal with public property developer, NHC.

Selecting five financial institutions purposely was based on the following criteria: the financial institutions which signed a mortgage deal with NHC but also operating in Morogoro Municipality. In this case they are two institutions namely CRDB and NMB. Again, purposive selection of one non- bank which also signed a mortgage deal with NHC with large establishment country wise. This is Local Authority Pension Fund (LAPF). Moreover, purposive samplings was then applied for the commercial banks signed a mortgage deal with NHC but formally were providing some kind of mortgage finance to individual households (though at hiked interest rate). These include

Commercial Bank of Africa and Azania Bank. The key informants were commercial managers, operational managers, loan officers and planning and investment officers (for a case of LAPF)

In cluster sampling, there were two stages. First, drawing a sample from the population of nine institutions signed a mortgage deal with NHC. In this case, a sample size of five (5) financial institutions is obtained. This size is determined by the following formula recommended by Nassiuma (2000).

$$n = NC^2 \div [C^2 + (N-1)e^2]$$

Where 'n' is the required sample size of the financial institutions, 'N' is the total number of financial institutions which recently signed a mortgage deal with NHC, 'C' is the coefficient of variation which is  $\leq 30\%$ ; and 'e' is the margin of error which is fixed between 2-5% (Nassiuma, 2000).

Under this study, a sample size has been calculated at 15% and 20% coefficient of variations for financial institutions and house developers respectively; whereby 5% margin of error has been adopted for both cases. 15% and 20% coefficient of variations have been adopted to ensure that the sample is wide enough to justify the relevance of the results. Very higher coefficients of variations have not been used to avoid very large samples due to limitation of research funds. However, 20% coefficient of variation which falls within a reasonable range has been adopted because a researcher a bit need relatively larger sample of house developers since they are readily available unlike the financial institution officials. Moreover, five percent margin of error was used whereby the independent variables could not be manipulated hence necessitating relatively higher margin of error.

It follows therefore that, N = 9 Financial Institutions, C = 15% and e = 0.05.

$$n = 9 \times 0.15^2 \div [0.15^2 + (9-1)0.05^2]$$

$$n = 0.2025 \div 0.0425$$

$$n = 4.7647$$

n = 5 financial institutions

Again, a sample size of 16 house developers from 845 plot occupiers found in both Block A and B Mlimakola area has been obtained using Nassiuma's formula:

$$n = NC^2 \div [C^2 + (N-1) e^2]$$

In this case, N = 845 plot occupiers, C = 20% (a bit large sample was required) and e = 0.05

Therefore  $n = 845 \times 0.20^2 \div [0.20^2 + (845-1)0.05^2]$

$$n = 33.8 \div 2.15 = 15.72$$

n = 16 House developers

Since Mlimakola area comprises Block A & B, the required sample was drawn from both blocks. As aforesaid this case study area comprises 845 households in which 280 are plot occupiers at Block A and 565 are holders from Block B. Assuming that each element in the population has an equal chance of being included in the sample it follows therefore that 33% (5 respondents) was drawn from Block A whereby 67% (11 respondents) was selected from Block B. The house developers was purposively selected based in three main criteria: having completed their building (6 house developers, that is 2 from Block A and 4 from Block B), having commenced construction but their structures remain abandoned for a long time (6 house developers 2 from Block A and 4 from B), and undertaking construction process at any stage, say foundation or lintel but incomplete structures (4 house developers, that is 1 from Block A and 3 from B). The total sample size has been 23 from the case study, financial institutions and Morogoro Municipality-Land Division. Also some information was collected from Kola B Sub-ward (*Mtaa*) leader and Authorized Land officer at MMC (See Table 3.1 below).

**Table 3.1: Adopted sample plan of the study**

Sample units	Kola A	Kola B	Commercial Bank	Non-Bank	Mtaa Leaders (Kola A & B)	Authorized Land Officer	Total
Population	280	565	7	2	2	1	<b>857</b>
Sample Size	5	11	4	1	1	1	<b>23</b>

**Source:** Researcher's own Construction, 2012; a sample based on Nassiuma's formula

### **3.7 Data Collection and Instruments**

This research aimed at both primary and secondary data. For collecting the primary data interviews were used (see Interview Guide - Appendix I). Also primary data were obtained through the use of self-administered questionnaires. The two means of collecting primary data were applied to officials in the financial institutions. Specifically the self-administered questionnaires were used to collect data on demographic and background characteristics of the LMHIDs. The reasons for the use of the two instruments in collecting the primary data were that these instruments were regarded as appropriate due to the fact that they were reliable, easy and fast to administer to the key informants. On the other hand, secondary data were gathered from various reports collected from MMC (Land Division), libraries and the selected financial institutions as well as from the books, internet search, news papers and journals.

### **3.8 Data Analysis**

Data analysis was done qualitatively in the form logical interpretations, descriptions and explanations on the basis of the data drawn for the purpose of fulfilling the requirements of the research objectives. Important techniques of qualitative data analysis such as documentation, conceptualization and content analysis (specifically by analyzing messages in the media, including articles published in newspapers, speeches made by politicians on radio and television as well as various forms of propaganda) were adopted. However there were instances where the findings were analyzed using quantitative measures drawn from Microsoft Excel and the obtained quantitative information and data were presented in the form of tables, frequencies, percentages and figures.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1 Introduction**

This chapter presents the research findings. The findings are in line with the specific research objectives in relation to the information and data drawn through the data collection methods provided in chapter three of this research report. The chapter presents the findings and their analysis in relation to the theoretical framework developed in chapter two.

#### **4.2 Research Findings Presentation and Analysis**

This section puts forward the research findings and provides elaborations of the issues as noted in the specific research objectives or research questions aimed at in this study. The findings are based on profile of LMIHDs, formal housing financing schemes (FHFS) which are in place in the selected financial institutions, availability of the opportunities for FHFS, and conditions attached to them as well as the challenges encountered in the implementation of the formal housing financing schemes in Tanzania.

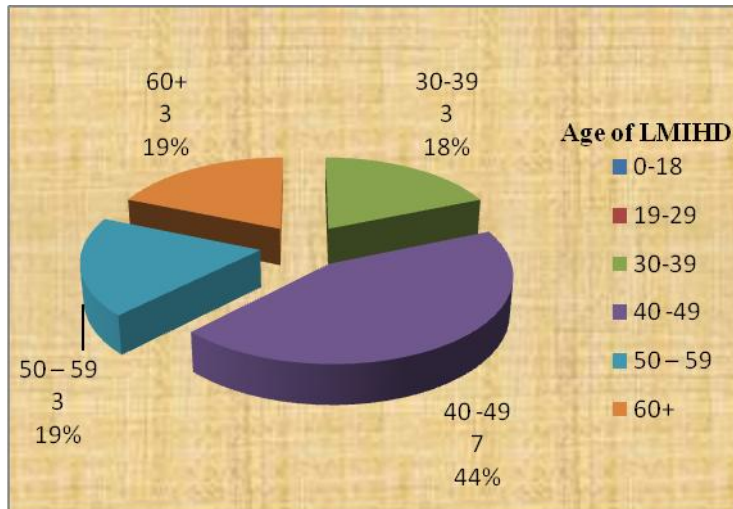
##### **4.2.1 Profile of low and middle income house developers**

The profile of the low and middle income house developers (LMIHDs) is presented on the basis of the following four dimensions: age, education qualifications, employment status, and modality of house acquisition.

##### *Age of LMIHD*

One of the measures employed in this study for the purpose of understanding the profile of LMIHDs was the age of the individuals as shown in Figure 4.1. The data provided shows that individual in the age range of 40-49 years had the higher rate of 44% accessing FHFS compared with the individuals from other age ranges, for instance 50-59 and 60+ with 19% each.

**Figure 4.1: Extent of accessibility to FHFS by age categories**



**Source:** Field work in 2013

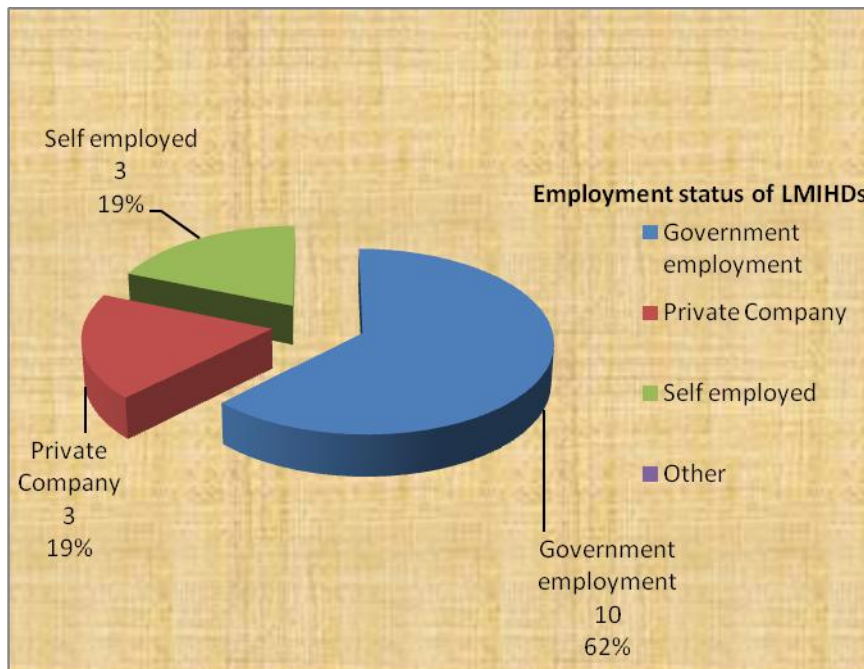
Based on information gathered and presented in Figure 4.1 individuals aging between 40 – 49% most of them are energetic and they have been working (whether privately or employed) albeit for some times. Hence their ability and willingness (demand) to access the formal housing financing schemes (FHFS) for construction purposes is high. Moreover, individuals under 30 years in most cases are either fresh from schools or they are still at schools hence they lack the so called secured employment to qualify for loan. It should be noted however that before confirmation for permanent employment terms in most government posts, a new employee normally undergo the probation period ranging from 1 to 3 years. During this period an employee does not qualify for loan hence they are limited to access housing finance schemes.

#### *Employment Status of LMIHD*

Understanding the extent of accessibility by employment status resemble much to the age aspect. Data show that most of the low and middle income house developers accessing formal housing finance in the area were in the salary cadre. That is, these were the government employees. This category constituted 62% of the number of respondents interviewed. Other categories of respondents accessing the scheme were employees in

private companies and individuals in private sector each category comprising 19% of the respondents (See Figure 4.2 below)

**Figure 4.2: Extent of accessibility to FHFS by employment status**



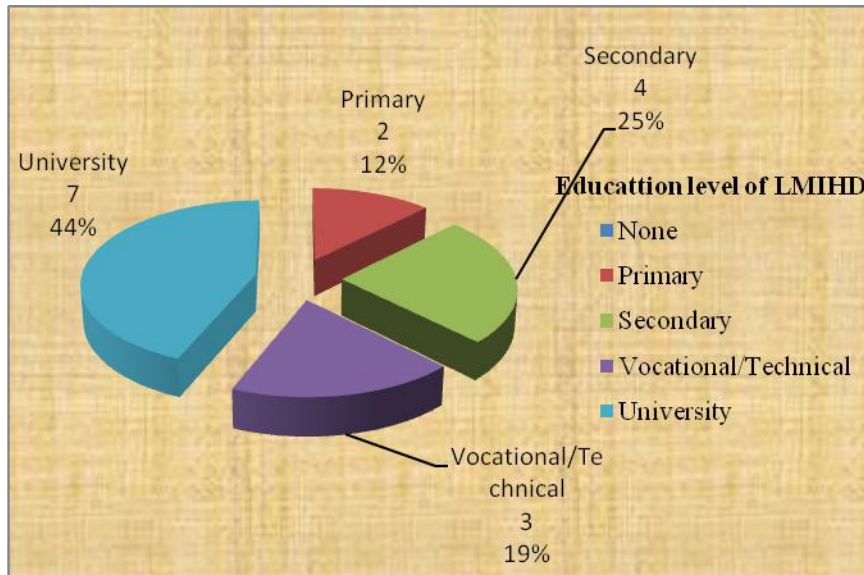
**Source:** Field work in 2013

The information presented in Figure 4.2 above meant that the financial institutions were willing to provide the housing loans to the individuals under government employment system than in private company and self employed.

#### *Education Qualification of LMIHDs*

Education level also determines the willingness of an individual to access formal housing finance scheme from the case study area. The findings show that graduates from universities were more willing to access the formal housing financial institutions as shown in Figure 4.3. In this case, 44% of the respondents who approached the housing financial institutions were university graduates followed by secondary school leavers (25%). The other categories were individuals falling under vocational (19%) and primary (12%) as shown in the following figure.

**Figure 4.3: Extent of accessibility to FHFS by Education Qualification**



**Source:** Field work , 2013

The information presented in Figure 4.3 denotes that the individual's level of education determine the decision of LMIHDs to access housing finance schemes. In this regards, the level of education reflected whether the individual was in the secured employment or not. Employment status is a foremost important qualifying factor for accessing the housing loans.

#### **4.2.2 House acquisition by LMIHD**

The mode in which the house one acquired or owned was one of the dimensions for understanding LMIHDs in their relation to HFS. The main characteristic of LMIHDs in this regard was that most of them built the houses themselves. In this way then the chances for accessing the HFS from the financial institutions were to some extent limited. For instance NMB Bank had the arrangement to provide the loan for purchase of a complete building under the special agreement with PSPF (cf. Interview with bank commercial manager, Wami Branch, May 2013).

### *Forms of housing acquisition*

The findings show that there were two forms of housing acquisition by LMIHDs at Mlimakola. These were building and buying. Building in this case refers to the actual construction of the house solely managed and supervised by the house owner. It means that the house holder himself or herself made all the preparations before and also continuously made the supervision during the construction process. Buying as a form of house acquisition means that the house holder did not involved himself or herself in the process of construction but he or she only used funds or money to acquire the house. Building a house had the highest frequency compared with buying (*see Table 4.1 below*). For instance, one of the LMIHDs who were interviewed in May 2013 at Mlimakola stated that:

“The plot on which this house is built was purchased in 2001. The construction started in 2003 and was completed in 2011”.

**Table 4.1: Modality of house acquisition by LMIHDs**

<b>Form of ownership</b>	<b>No. of LMHDs</b>	<b>Percentage</b>
Bought		
Built	16	100%
<b>Total</b>	<b>16</b>	<b>100%</b>

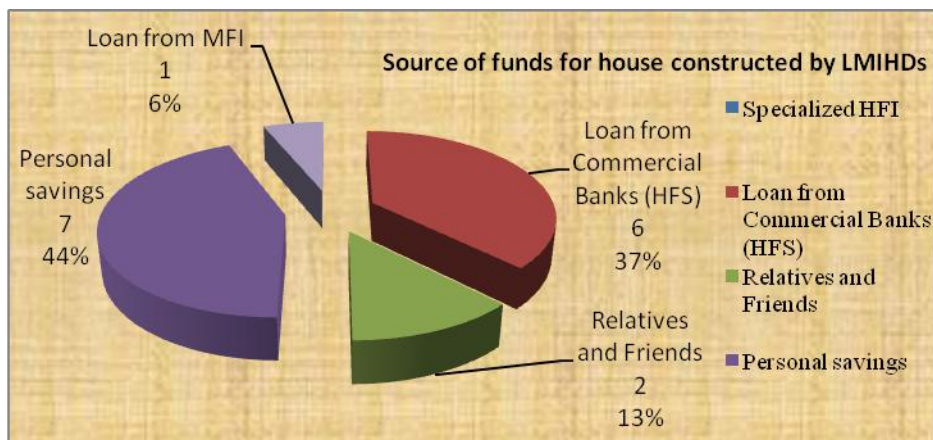
**Source:** Field data 2013

### *Patterns of housing financing*

This refers to the manner in which one secured the income or funds for either building or buying a house he or she owns. These patterns for housing financing ranged from: the finance from the specialized housing finance institutions which have the mortgage arrangements; loans from commercial banks which have housing finance schemes (HFS) and micro-finance institutions; funds from the relatives and friends; personal savings; money from abroad; loans from employers; selling of another house; selling of some plots and private lenders.

The result of the survey through the questionnaires distributed to 16 respondents at Mlimakola in Morogoro municipality showed that most of the respondents used their own savings to construct their houses. Such savings came from the sale of farms or animals products or some profits accrued from their businesses and reinvested in the construction of houses. Those got their houses through this way were 7 (44%). Also the second position was taken by loans from the commercial banks (HFS). This pattern was preferred by 6 (37%) of the total 16 respondents. The number of respondents who cited support from relatives and loans from the other micro-finance institutions (MFI) were 2 (13%) and 1 (6%) respectively. No respondents who cited money from abroad, specialized housing finance institutions, loan from the employers, selling another house or plots and finance from the private lenders as the sources for housing financing at Mlimakola (See Figure 4.4 below).

**Figure 4.4: Source of funds used for house construction in the area**



**Source:** Field work, 2013

Judging from Figure 4.4 above, one of the main effects of inaccessibility of large segment of low and middle income house developers to the housing finance schemes (HFS) offered by commercial banks is existence of “*Dead Capital*” as it has been

pointed out by different scholars under chapter 2. Similarly, in one of his speeches, the Third Phase Government President, Hon. Benjamin W. Mkapa noted that:

“Tanzania is one of the few and quite peculiar countries where housing is generally built on cash basis. As results, there a lot of unfinished properties which amount to nothing but dead capital not to mention the social malady of corruption usually associated with the practice of building houses in cash terms”.

The same has been observed at the case study area where the pace of property development is slow. Most properties have been abandoned for long time with little hope of being completed. The findings depict that 75% were incomplete buildings in the area and 25% only were complete buildings (*See Table 4.2 below*). In this case, the incomplete buildings were in two categories: building at initial stage of construction whereby the construction process continued and those buildings at the initial stage of construction but have been abandoned (*See Figure 4.5*). The ones regarded as completed were in the final stage of construction but abandoned as well as those at final stage of construction in which the households resided.

**Table 4.2: Stages of property development in the study area**

<b>Stage/status of property development</b>	<b>No. of LMHD</b>	<b>Percentage</b>
Building at initial stage of construction Where the construction process continues	2	12.5%
Building at initial stage of construction and have been abandoned.	3	18.75%
Building at final stage of construction but abandoned due to lack of funds	4	25%
Building at final stage of construction where the household resides in a building with little hope being completed.	3	18.75%
Complete building	4	25%
<b>Total</b>	<b>16</b>	<b>100%</b>

**Source:** Field Data, 2013

At the case study area many construction remain unfinished for years. One of the main reasons for property abandonments noted the interviewed respondent was the lack of funds. These unfinished dwellings represented the dead capital (*Refer Figure 4.5 below*).

**Figure 4.5: Abandoned Incomplete Buildings at Mlimakola Area**



**Source:** Field work, 2013

#### **4.2.3 FHFS in the selected financial institutions**

Formal housing financing schemes (FHFS) are those schemes in the banks and other financial institutions which have the general purpose of assisting the individuals who want to acquire houses to be able do so. However these schemes should have the long repayment period of not less than 10 years and this period may be extended up to 30 years. Also the interest rate in such schemes should not be the same as the one charged in the normal commercial banks. It has to be lower than the commercial bank rate and preferably it should be between 4% and 14%.

Given the above notion of FHFS, the financial institutions including commercial banks which were selected for the purpose of understanding the operations and opportunities of FHFS were NMB Bank, CRDB Bank, AZANIA Bank, Commercial Bank of Africa, and LAPF. The position of each of these selected financial institutions is as follows:

## **FHFS in NMB Bank**

### *NMB Profile*

NMB bank was established in 1997 by the National Microfinance Bank Limited Incorporation Act. The major changes to the bank which resulted to its current form and status happened in 2005 as a result of the financial sector liberalization. In 2008, the government reduced its share to 30% through the sale of shares to the general public in an IPO (16%) and to the NMB staff (5%). NMB is the largest bank in Tanzania, both when ranked by customer base and branch network. With over 145 branches the bank is located in more than 95% of Tanzania's districts (*source: www.nmbtz.com*). During the interview at Morogoro-Wami branch, the branch's commercial manager provided the following observation:

“Our bank is committed to sustaining and enhancing our branch network in order to provide access to capital to citizens in all areas of Tanzania, including the most remote”.

### *Mission and vision*

The NMB bank Mission provides that it is through innovative distribution and its extensive branch network, the bank can be able to offer affordable, customer focused, financial services to the Tanzanian community, in order to realize sustainable benefits for all its stakeholders. This mission is well supported by its vision which aims at making the bank the preferred financial services partner in Tanzania, where as its core values are ownership, customer focus, teamwork and integrity.

### *Opportunities for FHFS*

Through the interviews conducted at the bank (Morogoro - Wami branch), it was generally revealed that the bank did not have the arrangement to provide individuals with loans for housing construction. The bank only provided loans for the purchase of completed building. However the interviewed bank's commercial manager provided that the commercial loans offered by the bank could be used for the purpose of house construction depending on the individual's preference.

Despite having no specialized housing financing schemes where individuals could be given loans to construct houses, NMB bank recently came up with what was known as “NMB Mortgage Loan”. This mortgage loan was a designated to assist those who wished to realize their dream houses to secure one. The motto behind this loan category stated:

...with just a saving of 20 percent of the house value, we (NMB) will do the rest just to make your dream a reality...

In order to realize the objective of the mortgage loan, NMB bank has agreed with the PSPF. Thus PSPF is supposed to construct houses and avail these houses for mortgage loan by NMB bank. According to the interview with the bank’s commercial manager, the benefits one would likely to get through the NMB Mortgage loan include the following:

- The borrower is likely to get a loan of 80% of house sales value.
- The customer can choose flexible terms for repayments from 1 year to 15 years.
- Joint borrowing, spouse consent is required.

### ***FHFS in CRDB Bank Ltd***

#### ***CRDB Bank Plc Profile***

CRDB Bank Plc is a leading, wholly-owned private commercial bank in Tanzania. The Bank was established in 1996 and has grown and prospered over the years to become the most innovative, first choice, and trusted bank in the country. CRDB Bank has been recording progressive profit every year since its foundation and has paid dividends annually. The Bank reached an important milestone recently and was listed on the Dar es Salaam Stock Exchange on 17th of June, 2009.

CRDB Bank offers a comprehensive range of Corporate, Retail, Business, Treasury, Premier, and wholesale microfinance services through a network of over 85 branches, 250 ATMs, 15 Depository ATMs, 12 Mobile branches, 900 Point of Sales (POS)

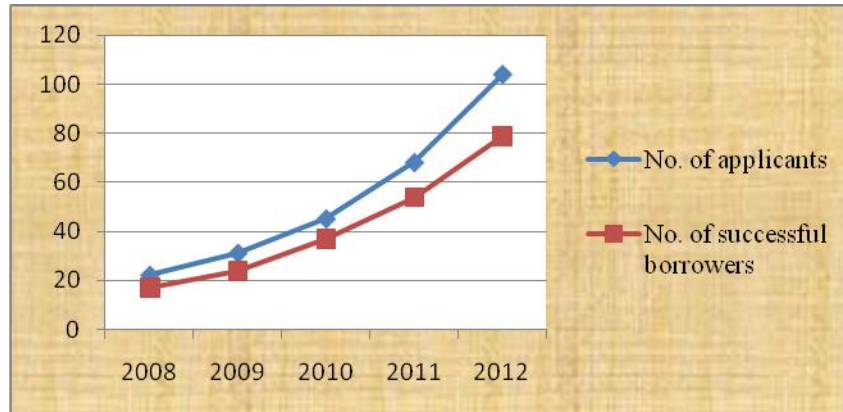
terminals and scores of Microfinance partners institutions. The Bank also operates through Internet and Mobile banking services (Source: www.crdbank.com).

*Personal Loans and conditions attached*

These are credit facilities advanced to salaries employees to meet various personal objectives such as purchasing a house, purchasing a car, education and general purposes. The repayment period depends on the purpose of the loan; for instance the repayment period for purpose of purchasing a house/ constructing a house from scratch may range from 1-15 years. The targeted individuals for these personal loans are salaried individual aged between 21 and 59 years who have fully secured their employers' guarantees and they should abide to the requirement that installment repayments should be deducted from their monthly salaries and such deductions should not exceed 1/3 of gross monthly salary.

On the other hand, some important benefits one is likely to get from these personal loans include: simplified procedures; longer repayment period; lower deduction rate; relatively low interest rate of about 19% per annum charged on reduced balance (being 18% for loan and 1% for insurance cover); flexibility; simplified repayment arrangements and being accessible at all CRDB branches. For those individuals who precisely apply for housing loans from CRDB bank, they also need to surrender the title deed to the bank, apart from the employer's guarantee. Figure 4.6 below shows the trends of the number of applicants and successful borrowers from 2008 – 2012.

**Figure 4.6: Mortgage loan trends at CRDB Bank from the year 2008 - 2012**



**Source:** Field work, 2013

The information presented above indicates that the trend in mortgage applications against the number of successful borrowers was that the number increased significantly over time. Thus as the time went on borrowers' awareness regarding the housing financing scheme also increased, though the conditions imposed for one to secure a loan seemed to be a challenge to some who wished to borrow, hence their failure to qualify for the loans.

#### *“Jijenge”- Housing Loans*

Recently CRDB has launched special product for house purchase, purchase of building materials, renovation and house construction known as “Jijenge” loan (see Appendix III). The interest rate charged is similar to that charged on personal loan that is 19% per annum being 18% for loan and 1% for insurance cover. However the repayment period for this arrangement has been albeit extended to 20 years. According to CRDB Managing Director Dr. Charles Kimei: the product is suitable for salaried employees with minimum wages of Tshs. 200,000/-, businessmen, peasants and fishermen. So far the bank managed to lend for construction of 15,000 house units per annum contrary to the annual demand of 200,000 units as per the recommendation by the MLHHS.

## FHFS in AZANIA Bank

### *AZANIA Bank Profile*

Azania Bank Limited is the first indigenous private bank, formerly known as 1st Adili Bancorp Limited established in 1995 following the liberalization of the banking sector. The major shareholders of the Bank include National Social Security Fund (NSSF) 34.8%, Parastatal Pensions Fund (PPF) 30.1%, and Public Service Pensions Fund (PSPF) 17.2%, Local Authorities Pensions Fund (LAPF) 14.2%, East African Development Bank (EADB) 2.3% and several indigenous minority shareholders including staff holding 1.4% of the shares the bank.

The bank is currently providing banking services at 11 locations in Tanzania which are Masdo House along Samora Avenue, Kariakoo Branch along Msimbazi Street, Tegeta Branch along Bagamoyo Road, Mwenge Branch and Mawasiliano Towers(TCRA building) along Sam Nujoma Road in Da es salaam , Mbauda Branch and Arusha City Branch along Wapare Street in Arusha, Moshi Branch along Market Street in Kilimanjaro , Kahama Branch in Kahama Town - Shinyanga, Mwaloni Branch near Mwaloni Fish Market and Nkrumah Branch along Nkrumah Street in Mwanza. The Bank is in the process of opening another branch in Geita and three (3) agencies in Lamadi, Katoro & Kagongwa around Lake Zone.

The bank is a shareholder of Umoja Switch Company which has more than 23 member Banks sharing a common EFT Switch and payment infrastructure platform through ATM's throughout the country. Through this shared infrastructure member banks are now implementing additional services like internet banking that will facilitate online fund transfers through accounts in different banks, mobile banking, online air time recharge, utility bill payments and exploring options for institution of gateway to other international networks like VISA/Master Card.

Azania Bank is one of the pioneer banks with an equity investment in Tanzania Mortgage Refinance Company Limited (TMRC), an institution created to provide long

term financing to member banks to support creation of a vibrant mortgage market in the country.

#### *Mission Statement and vision*

Azania Bank Ltd aims at becoming a leading bank in providing banking and financial services to the small and medium sized customers by using professionally, motivated and dedicated staff, applying the state of the art-technology and continually enhances shareholder value. Azania bank's vision is that it aims at being one stop financial centre for the small centre for the small financial centre for the small and medium sized enterprises.

Given the bank's direction as noted in the mission and vision, the bank aims at small and medium sized companies, individuals, NGOs. During the interview, one bank's loan officer had the following to comment:

“The objective is both to provide credit that guarantees growth and guide on how the credit is applied for the development of the economy. We do understand that small and medium sized enterprises have long been the true engines of economic growth”.

Further the interviewed loan officer recalled the values of the bank to be as follows: innovation, effective risk management, low cost services, responsiveness, leadership, commitment, integrity, motivation and teamwork.

#### *Home Loans and conditions attached*

Survey conducted at the bank revealed that the bank started to provide long term loan (home loan) for a period ranging between 1 and 15 since 2002. The condition regarding certificate of title deed is a necessary condition for home loan exclusively. The loan officer, in the interview, hinted that despite receiving the high response rate to its home loan facilities most of these small and medium income households did not meet the required condition for housing financing loans. Majority of those who aspired for the loans did not possess certificate of title deed.

Moreover the loan officer noted that the interest rate for home loan goes down up to 18% depending on the resolution reached between the bank and the customer. Besides the loan officer provided what the bank calls home loans important conditions include the following: having a savings account with Azania bank amounting 20% of the expected loan, possession of title deed for the property, having a sale agreement if one wants to buy a house, having been granted a building permit, having a building plan and bill of quantities and for the employees, they must ensure that their salaries are paid through Azania bank. Also the home loans may be either for constructing a house from its foundation to completion or purchasing a completed house.

#### *Opportunities for housing finance*

The loan officer, during the interview, highlighted his experience in relation to the home loans provided by the bank and commented that:

“Due to the home loans, we have vivid examples that individuals have managed to construct their houses within a shorter time than it could usually be had it been without such loans. The advantages of having a house include income generation through rents, security to the loans at the bank and reputation one gets from the community”.

Sometimes the bank found itself in a difficult moment for it to determine the worthiness of would be loan beneficiaries as noted the bank’s loan officer in the following remark “we do have money at Azania bank, but the challenge to us is to determine the worthiness of our customers. Sometimes it is very difficult to identify a loyal borrower or client”. Despite this challenge the bank continues to provide loans as indicated in the Figure below:

**Figure 4.7: Mortgage loan trend at Azania Bank from 2008 - 2012**



**Source:** Azania Bank Limited Dar es Salaam, 2013

The figure above indicates that the number of applicants dropped steadily in 2009 compared to the year 2008. However the number of successful borrowers increased rapidly from 2008 to 2009. That means the ability and willingness of the home loan seekers increased in the two consecutive years. Altogether, both the number of mortgage applicants and the number of successful borrowers were increased considerably from the year 2009 to 2012 (See Figure 4.7).

Although the opportunities were available for home loans at Azania bank, these opportunities seemed to be discriminatory in terms of the interest rates charges to the clients. For instance, loan seekers for business or commerce are charged at the rate of 22%, while the home loan seekers are charged at 18% while others for instance National Housing Corporation (NHC) were charged at the rate of 13%<sup>9</sup>. In a unique way NHC was given a maximum of 15 years with a grace period of one year before starting loan repayment. With this arrangement NHC accrued the following benefits: the corporation was enabled to construct many building within a short time. Given the low interest rate

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<sup>9</sup> According to NHC Estate Officer at the headquarter- Dar es Salaam, the average interest rate charged to NHC by nine financial institutions was 15.3% with repayment period of 15 years given a grace period of one year.

and long term repayment period the corporation was enabled to meet loan repayment commitment without problems.

Regarding the bank's ability to lend in the long term as an indication of the existence of opportunities to support housing financing scheme in the form house loans, the bank's loan officer during the interview stated that:

“Azania Bank Limited can lend any amount, although for the majority borrowers, their borrowing capacity ranges from 30 million Tanzanian shillings to 200 million Tanzanian shillings. Very few individuals especially those who own big companies can take above 200 million Tanzanian shillings”.

### ***FHFS in Commercial Bank of Africa (Tanzania)***

#### *CBAT profile*

Commercial Bank of Africa (Tanzania) (CBAT) is a commercial bank in Tanzania. It is one of the commercial banks licensed by the Bank of Tanzania, the country's banking regulator. It is a wholly owned subsidiary of Commercial Bank of Africa, a large, privately owned commercial bank based in Nairobi, Kenya. The bank is a member of the Commercial Bank of Africa Group, headquartered in Nairobi, Kenya, with subsidiaries in Kenya, Tanzania and Zimbabwe. CBAT serves the banking needs of individuals and businesses in Tanzania. Like its parent company in Kenya, CBAT focuses on meeting the banking needs of large corporations, diplomatic missions, NGOs and high-end private clients.

Historically, the bank was founded in 1962 in Dar es Salaam, Tanzania. Soon, branches were opened in Nairobi & Mombasa, Kenya and in Kampala, Uganda. When Tanzania nationalized private banks in 1967, the bank moved its headquarters to Nairobi. Following political changes in Uganda in 1971, the bank sold its assets in that country. In July 2005, Commercial Bank of Africa (CBA) acquired majority shareholding in First American Bank of Kenya, which at the time had a Tanzanian subsidiary called United Bank of Africa. In 2007, United Bank of Africa rebranded to Commercial Bank of

Africa (Tanzania), returning the brand to the country since 1967. In October 2011, the CBA Group announced plans to enter Uganda.

#### *CBAT Vision and Mission*

In terms of both vision, the bank aims at being a respected and significant financial services business partner in Africa. In its mission statement, the bank states that its target is to enhance the wealth and fulfillment of life for their customers; and to value confidence, comfort, prestige and elegance. According to one bank staff during the interview:

“ CBAT usually helps individuals get more out of life. The bank follows a forward thinking, innovative and reliable strategy, adhering to principles of good banking - strong capitalization, liquidity, risk diversification, conservative lending policies, investment in service delivery channels and customer experience orientation”.

#### *Opportunities for FHFS at CBAT*

Through the interview with the bank staff responsible for loans, it was revealed that if anyone wants to buy or build a house, the bank (CBAT) offers a variety of mortgage options. In this perspective the bank mortgage slogan, as noted by the interviewed staff, states that:

“The mortgage arrangement at the bank is equated to “putting the key into the hands of the customer sooner than they think, with minimum fuss”.

According to the bank officer who was interviewed, the opportunities for FHFS at the bank have the following benefits: it has available support from experienced bank staff and management. The bank officials are readily available to advise and guide the customer on property valuation and market trends. The bank has flexible repayment period and it goes up to 25 years and there is no penalty for early repayment.

The main features of the FHFS at CBAT include the following: The minimum amount is TZS 20 million and the maximum amount is TZS 350 million and sometimes the amount to borrow is based on the ability to repay. The currency through which one can borrow from the bank is too static, that is one is free to borrow in Tanzania Shillings or

in major foreign currencies such as USD, EURO and GBP, however the only condition is that one's income or salary should be in foreign currency. Another feature of the loan is that it is also available for Tanzanian living abroad (Diaspora). It is the obligation of CBAT to arrange for valuation and all legal processes to assist customers secure loans and the interest is charged on a reducing balance basis at 22%.

### **FHFS in Local Authorities Pensions Fund (LAPF)**

#### *LAPF Profile*

The Local Authorities Pensions Fund (LAPF) was established by The LAPF Act No 9 of 2006 which repealed the Local Authorities Provident Fund Act No 6 of 2000 (cf: <http://www.lapftz.org/>). The difference between the former Local Authorities Provident Fund (LAPF) and The Local Authorities Pension Fund (LAPF) is the way benefits are determined, while in the former provident Scheme the Fund was mandated to Defined Contribution (DC) plan, in contrary, the existing Pension Scheme, the Fund is mandated to Defined Benefit (DB) plan. The plan which bases its calculation on the contribution level of the insured person and investment portfolio

With Defined Benefit (DB) scheme, the contributor retires above the poverty line. LAPF has now been transformed into a DB scheme and from early 2007. It has already started paying pension to its first group of qualifying pensioners who were employed by the Local Government Authorities.

#### *Mission and Vision of LAPF*

LAPF envisions becoming the most preferred pension fund and in its mission statement the fund is dedicated to being a dynamic provider of social security benefits through the utilization of competent and motivated staff.

### *Opportunities of Loans for Housing at LAPF*

Social security provides protection against socially recognized conditions such as poverty, old age, disability and loss of earning capacity to members. Since salary from employment is not adequate, LAPF provides its members with pre-retirement housing loans which are intended to assist members to meet their housing needs before retirement when they reach 60 years. The granted loan depends on the amount applied but should not more than 50% of the lump sum pension amount payable when one attains 60 years. The applied amount is based on the application date.

A member is entitled to a pre-retirement housing loan upon reaching 55 years of age and has contributed to LAPF for at least 180 months or 15 years. A 7% simple interest rate is charged per annum on a reducing balance method from the first month after disbursement of the loan. The payments for the loan are made from the member's final benefit payments at the time of retirement in one lump sum. The loan Computations is attained by the following formula:

$$1/540 \times \frac{[\text{Last Annual Salary} \times \text{Number of Months Contributed} \times 15.5]}{2} \times 50\%$$

2

Up to one half of cumulated Pension Gratuity is being advanced to a qualifying member.

### **4.3 Conditions attached to Housing Financing Schemes**

These are the prerequisite/criteria set by each selected financial institutions so that an individual must fulfill before getting the loan. Generally the data show that each institution has its own conditions attached to the loans, however in some cases certain conditions seem to be cross cutting conditions in these financial institutions as shown in the Table 4.3 below.

**Table 4.3: Conditions attached to HFS in selected financial institutions**

S/ No	Factors preferred by financial institutions	NMB	CRDB	CBA	AZANIA	LAPF
1	<i>Loan amount</i>	Minimum: TZS 20 million. Maximum: TZA 500 million.	Small enterprises: 1.5 - 500 million Medium enterprises: 501-1 billion Corporate: 1.1 billion and above	Ranges from TZS 20 million to 350 million	Any amount; but majority borrow from 30 million to 200 million. Only few people borrow above 200 million.	Depend on the amount applied but should not be more than 50% of the lumpsum pension amount payable when one attains 60 years.
2	<i>Persons who qualify</i>	Employees, businessmen and professionals	Salaried individual aged between 21 and 59 years; and must have employer guarantee	Tanzanians even those living in abroad (Diaspora)	Individual employees and businesses or companies.	Member attaining of pensionable age of 55 (voluntary retirement) to 60 (statutory retirement) years.
3	<i>Need of bank account</i>	Account with NMB with the balance not less than 20% of the house value.	Account with CRDB with the balance not less than 20% of the loan.	Account with CBA bank.	Account with Azania bank with the balance not less than 20% of the loan	A copy of bank ID
4	<i>Application form</i>	Dully signed and completed application form.	Dully filled and signed application form	A completed and signed mortgage application form.	Dully filled and signed mortgage application form	A dully filled form LAPF/LON.1 (House Loan Application Form).
5	<i>Identification</i>	3 passport size photos and a copy of passport or voter's ID or employment ID	Passport size photo and copy of relevant employment documents.	Original ID and passport plus copies.	Proof of nationality or permanent permit.	First appointment letter; A copy of LAPF membership card; 3 passport size photographs
6	<i>Sale agreement for the property (in case of house purchase)</i>	Dully signed sale agreement by parties and witnessed by a lawyer	Sale agreement signed by parties and witnessed by attorney	Dully signed sale agreement.	Sale agreement signed by parties and attorney	Original sale agreement or building permit
7.	<i>Title deed</i>	Title Deed of the property to be purchased with minimum lease term 33 year supported with official search from MLHHSO.	Title Deed of the plot to be constructed or property to be purchased with leasehold remaining of not less than 15 years supported by official search from MLHHSO.	Title Deed of the property to be purchased supported with official search from MLHHSO.	A copy of title deed with leasehold remaining of not less than 15 years.	Title Deed of the plot to be constructed or property to be purchased supported by official search from MLHHSO
8.	<i>Property valuation report</i>	Property valuation report from NMB bank's approved valuers.	Property/plot valuation report approved by Chief Government Valuer.	Property/plot valuation report approved by Chief Government Valuer	Property/plot valuation report approved by bank's valuer and addressed to the bank.	Recent property valuation report obtained within 12 months prior to signing agreement – in case of building.
9.	<i>Photograph of property to be purchased</i>	Photograph of the property.	Recent photograph of the property.	Recent photograph of the property.	Recent photograph of the property.	Recent photograph of the property.
10	<i>Land rent payment</i>	Recent land rent receipts.	Latest land rent receipts.	Recent land rent receipts	Recent land rent receipts	Recent land rent receipts

	<i>receipts</i>					
11	<i>Letter of offer from a house seller</i>	For customers buying NHC/PSPF houses, should produce a letter from NHC/ PSPF	-	-	-	-
12	<i>Bank statements</i>	3 months bank statement for new NMB customers	Bank statements for the latest 3 months	Bank statements for the latest 6 months	Bank statements for the latest 6 months	-
13	<i>Employer's letter or guarantee</i>	Employer's introductory letter confirming employment contract and status	Employer's introductory letter confirming employment contract and status	Original ID or Passport (plus copies)	Employer's confirmation. For companies: registration, owner ID, MoU, article of association, board resolution to borrow, director guarantee.	First appointment letter and a copy of LAPF Membership Card.
14	<i>Salary slip</i>	Salary slip for the latest 3 months	Salary slip for the 3 latest months	Pay slips for latest 6 months	Salary slip for the past 3 months	Copy of salary slip for the month preceding the month of such application.
15	<i>Audited accounts report (for businessmen or professional)</i>	Financial statement to validate source of revenue.	Audited accounts report & Cash flow projections	-	Audited accounts for the past 3 years and cash flows projection reports (For Companies)	-
16	<i>TIN (for businessmen or professional)</i>	Tax identification number required	Tax identification number required	Tax identification number required	Tax identification number required	Tax identification number required
17	<i>Registration (for businessmen or professional)</i>	Certificate of registration and business license is required.	Certificate of registration and business license is required.		Certificate of registration and business license is required.	NA
18	<i>Age limit</i>	Age of majority	Salaried individuals aged between 21 to 59 years	Above 18 years	Age of majority	Pensionable age of 55 (voluntary retirement) to 60 (statutory retirement) years.
19	<i>Repayment period/time</i>	Maximum of 15 years	Maximum of 20 years.	25 years and there is no penalty for early repayment.	Maximum of 15 years.	Maximum 5 years: Payments to be made at the time of retirement in one lumpsum.
20	<i>Installments repayment procedure</i>	Deducted from monthly salaries	Deducted from monthly salaries. Deduction does not exceed 1/3 of gross monthly salary.		Deposit of 3 repayment installments in the account.	
21	<i>Approved building plan</i>	Not applicable since no loan is issued for House construction from scratch.	Building permits in case a building to be constructed from scratch.	Building permits in case a building to be constructed from scratch.	Approved building plans by relevant authorities	Certified copy of building plan.
22	<i>Bills of quantities</i>	Not applicable since no loan is issued for house construction from scratch	Bills of Quantities (BoQ) prepared by registered quantity surveyor is required in case of building construction from scratch.	Bills of Quantities (BoQ) prepared by registered quantity surveyor is required in case of building construction	A bill of quantities from a registered quantity surveyor is required in case of building construction from scratch.	Bills of Quantities (BoQ) prepared by registered quantity surveyor is required in case of building construction from scratch.

				from scratch.		
23	<i>Approved survey map</i>	-	-	-	Approved survey map of the area	-
24	<i>Spouse consent</i>	Spouse consent of the seller.	Spouse consent of the borrower (and or seller in case of house purchase)	Spouse consent of the borrower (and or seller in case of house purchase)	Spouse consent of the borrower and or a seller in case of house purchase	
25	<i>Transfer deed</i>	Transfer deed is required	Transfer deed is required in case of house purchase	Transfer deed is required in case of house purchase	Transfer deed is required in case of house purchase	
26	<i>Interest rate charged</i> <i>NB: The average rate charged to NHC by 9 F/Inst. is 15.3%.</i>	19% per annum charged on reducing balance method	19% per annum charged on reducing balance (18% for loan and 1% for insurance).	Charged on a reducing balance basis at 22%.	Charged at the rate 18% however, NHC was charged at the rate of 13%	A 7% simple interest rate is charged per annum on a reducing balance method
27	<i>Name of such housing finance product</i>	Mortgage loan	Housing loan	Mortgage loan	Home loan	Pre-retirement housing loan
28.	<i>Purposes for which the loan may be offered.</i>	Purchase of completed residential house only.	Construction of the house from scratch or Purchase of completed residential house	Construction of the house from scratch or Purchase of completed residential house	Construction of the house from scratch or Purchase of completed residential house	Construction of the house from scratch or Purchase of completed residential house
29.	<i>Other charges involved</i>	Capital gain (seller); Transfer fee (buyer); Loan processing fee; Loan commitment fee; Loan administration fee and property valuation fee.	Capital gain (seller); Transfer fee (buyer); Loan processing fee; Loan commitment fee; Loan administration fee and property valuation fee.	Capital gain (seller); Transfer fee (buyer); Loan processing fee; Loan commitment fee; Loan administration fee and property valuation fee.	Capital gain (seller); Transfer fee (buyer); Loan processing fee; Loan commitment fee; Loan administration fee and property valuation fee.	-

**Source:** Compiled from Field data, 2013

#### **4.4 Challenges of implementing formal housing finance schemes in Tanzania**

The challenges, which to some extent have limited the smooth implementation of formal housing financing schemes in the country, were found to be either from the side of the financial institutions, low and middle income house developers or the government as follows:

#### 4.4.1 Challenges on the part of the Financial Institutions

In the course of conducting this study, data were collected from five financial institutions. These are four commercial banks namely CRDB, NMB, Azania and Commercial bank of Africa; and one social security fund which is Local Authority Pension Funds (LAPF). However a researcher becomes to realize the following as hindering factor for one to secure a loan on the side of financial institutions:

##### 4.4.1.1 High Interest Rate

Different names in different commercial banks have been adopted to mean housing finance scheme in Tanzania. For instance, at CRDB it is known as housing loan while NMB and CBA, the name is mortgage loan. Azania Bank calls such loans as home loan. As indicated in the Chapter Two of this study, lowering the interest rate by the housing finance institutions at the range between 4% - 14% is assumed to be appropriate to encourage a large segment of the low and middle income house developers to borrow. However, the interest rates charged by the commercial banks selected in the study range from 18%-22%, the average rate being 19.5% (See Table 4.4 below).

**Table 4.4: Interest rate charged & repayment periods for selected financial institution in Tanzania**

No	Name of such housing finance scheme	Name of the bank	Interest rate (%) (reducing balance)	Repayment period (years)	Purpose of the Loan
1.	Housing loan "Jijenge" loan	CRDB	19%	1-15 1-20	-Construction of the house from scratch or - Purchase of completed residential house
2.	Mortgage loan	NMB	19%	1-15	-Purchase of completed residential house
3.	Mortgage loan	CBA	22%	1-25	-Construction of the house from scratch or - Purchase of completed residential house
4.	Home loan	Azania	18%	1-15	-Construction of the house from scratch or - Purchase of completed building
			<b>Aver. 19.5%</b>		
5	Pre-retirement housing loan	LAPF	7%	1-5*	-Construction of the house from scratch or - Purchase of completed building

**Source:** Field Data, 2013

\* Payments to be made at the time of retirement in one lump sum.

The interest rates charged by the selected financial institutions also seem to be above the rate directed by the Bank of Tanzania. The Bank of Tanzania once directed the financial institutions to charge 8% as noted by the former Minister for Finance, Zakhia Meghji, in the National Assembly (See Appendix IV). Given the difference of more than 10% between the interest rate directed by BoT and those charged by the selected commercial banks, it becomes obvious for the majority of low and middle income house developers to be reluctant to access the loans from these institutions. Hence such high interest rates tend to limit mortgage transactions in the country.

Moreover, the findings of this study have revealed that until the end of 2012 most selected banks were lending for short term (1 – 5 years). The arrangement for long term loan (say 1- 15, 20 or 25) for most banks has effected in early 2013, except Azania which started lending up to 15 years in 2002. Although the selected commercial banks such as Azania and NMB have the repayment periods which range between 1 – 15 years, for CRDB it is up to 20 years whereas CBA lends for up to 25 years, the high interest rates charged by these banks still act as disincentives to the friendly longer repayment periods attached to the formal housing financing schemes. This situation has continued despite the establishment of the Tanzania Mortgage Re-financing Company Limited (TMRC) in 2010 which basically provides support to commercial banks.

LAPF has been treated separately in this case since it lends the pre-retirement housing loans only to its member. A member is entitled to a pre-retirement housing loan upon reaching 55 years of age and has contributed to LAPF for at least 180 months or 15 years. A 7% simple interest rate is charged per annum on a reducing balance method. In fact, such loans are friendly to the borrower despite the challenge of one to wait until attains the retirement age so as to borrow.

#### 4.4.1.2 Stringent process and difficult conditions imposed

Again, the selected banks in Tanzania have developed stringent processes and conditions which seem to limit disbursement of funds prior to perfection of collateral. One of such conditions imposed by almost all selected financial institutions is the need of title deed. The information from the Ministry of Land and Human Settlements shows that more than 70% of Tanzanians in urban areas live in unplanned settlements. That implies that about 30% live in the planned settlements whereby most land occupiers have Letter of Offers and only few are with the title deeds (*See Table 4.5*).

**Table 4.5: Title Deeds Issued by the MLHSD in Different Financial Year Country Wise**

S/No.	Financial year	Number of title deeds
1	2005/2006	5,464
2	2006/2007	8,160
3	2007/2008	9,733
4	2008/2009	14,436
5	2009/2010	17,390
6	2010/2011	22,491
7	2011/2012	23,610
8	2012/2013	24,421
<b>9</b>	<b>Total</b>	<b>125,705</b>

**Source:** MLHSD Annual Financial Budget Reports from 2005/06- 2012/13

During the interview with one bank official at Azania Bank it was provided that the acceptance of mortgage application was only allowed when the land tenure was more than five years. In case it is less than that period, then the applicant is required to lodge for renewal of such title deed. The failure to get a renewal would entail the collapse of the whole mortgage application. In the same interview it was further provided that in processing and scrutinizing mortgage transaction the lawyers/solicitors had to be hired for notarization. The interviewed official stated that:

“Once the bank accepts the proposal prepared by the mortgagor, the parties have to prepare the mortgage deed. A mortgage deed is a contractual agreement prepared and witnessed by the solicitor which explains the duties and the rights of the parties in the mortgage transaction. In the mortgage deed the market value and amount loaned are shown clearly”.

Likewise, the bank's operation manager at CRDB bank noted that if the bank lends money to a borrower who wants to purchase complete building, the procedures slightly differ from those directing one to borrow for constructing from the start. For instance, in the case of purchase, the Land Regulation made under section 179 of the Land Act No. 4 of 1999 describe the land forms which are used in disposition such as land form No 29, land form No 30 and land form No 35. Again, land regulations direct the manner in which mortgage and transfer transactions are executed by the councils and MLHSD.

According to the Land Act No. 4 of 1999, the filled prescribed land forms, valuation reports, and mortgage deed/sales agreement are eventually logged in the local authorities' land offices (MMC) for approval purposes. Documents are verified by doing title search, verification of ownership, payment of property taxes and land rents. After the verification and signing of the document the next step is to forward the documents to the office of the commissioner for lands at MLHSD headquarters in Dar es Salaam.

The Ministry of Land and Human Settlement Development has the Commissioner for Lands as the main actor for approval of all mortgage/transfer transactions in the country. Mortgage/transfer transactions once logged at MLHSD passes through land delivery section, legal section, valuation section and the land registry which are sub-divisions in the Commissioner's office. The received documents from various local authorities are crosschecked and approval for disposition is made. The final step is registration of the mortgage and transfers made under the Land Registration Act Cap. 334

#### **4.4.1.3 High cost involved**

Both direct and indirect costs involved during the processing of the loans were noted by the respondents from the side of the individual house developers as well as some bank officials during the interviews. The direct costs include preparation of mortgage deed fees whereas the law firm receives a commission depending on the value of the mortgage and their agreement with the bank. Other fees involved are as indicated in Table 4.6.

**Table 4.6: Costs Involved in borrowing housing loan for purchase of a building worth of say Tshs. 20 million**

<b>Item/fees</b>	<b>Costs in Tshs</b>
Amount borrowed (Assumption)	20,000,000
Estate agent fee 10%	2,000,000
Solicitor fee 5%	1,000,000
Capital gain tax 10%	2,000,000
Stamp duty 1%	200,000
Registration fee	40,000
Valuation fee (0.01%)	2,000
Approval fee	5,000
<b>Total costs incurred (26.2%)</b>	<b>5,247,000</b>
<b>Amount remained (73.8%)</b>	<b>14,753,000</b>

**Source:** Fees established by MLHHS, July 2013

According to URT (1999) Capital Gain Tax is an income tax levied upon the transfer of the real property only due the income received from the sales of the property. Principally, this tax is paid by the transferor although in practice the transferee normally pays such taxes. This tax is assessed and paid to the Commissioner of Revenue Authority (TRA). TRA has the mandate to order for revaluation if not satisfied with the value estimated by the valuers. The other tax which is paid to the commissioner of revenue authority is stamp duty as a fee paid to the central government for occupation of the right of occupancy. Capital gain can range from 3-10% but sometimes if the value of the property is lower than consideration paid, and then capital gain tax is levied on the basis of the consideration paid.

Real estate companies are companies which provide for real estate services such as valuations, property management consultancy and real estate agencies. In the context of mortgage transactions such companies are basically concerned with carrying out valuation for mortgages and insurance purposes. Real Estate Agencies always charge commission of 4%-10 % of the sale value. Examples of such companies in Tanzania include Knight Frank, Majengo Estate developers and GIMCO Africa.

The application for disposition is not approved if it is not attached with the pay in-receipts for valuation fees (0.01%), approval fees (5000), registration fee Tshs 40,000/=, current land rents and arrears (if any), stamp duty 1%, estate agent fee (10% for transfer only), solicitor fee (3-5%) and capital gain tax (10% for transfer only) of the consideration/market value of the property under transaction. The Commissioner's office insures that all these fees are paid before any approval is made. Approval fees, valuation fees and rent are paid at the Ministry of Lands while solicitor fee and estate agency fee are paid to respective firms.

#### **4.4.1.4 Weak Legal and Institutional Framework**

The banking sector over the past decade has offered little formal housing finance to households although a few commercial banks both public and private have made a limited amount of loans to homebuyers under short term basis. These are mostly part of the banks retail activities using collateral other than mortgage pledges.

Until 2012, only few individuals buying houses in Tanzania were able to obtain finance, and this would not be in the form of housing loans. The most common finance arrangement was the personal loan and consumer finance, offered to salaried individuals guaranteed by their employers by which personal arrangement secured by collateral that is title deed of a house. Such a loan is suitable to buy anything for personal use like a car or home assets but not for purchase of a house or construction of valuable asset like building. The other most common arrangement was business loan which is suitable for businessmen. All these arrangements at selected banks involves payment of hiked interest rate ranging between 18% – 22%, followed by installments over a period ranging from one to five years.

From the beginning of this year (2013) loan issues albeit has been regulated. The study witnessed from all selected financial institutions offering house loan though named differently. Except NMB bank which offer house loan for house purchase only, the rest

selected financial institutions offers house loan for either house purchase or construction from the scratch (*Refer Table 4.4 above*).

#### **4.4.1.5 Lack of Long-term Financing**

Until the end of 2012, most banks (except Azania which started in 2002) lend its funds in short term period usually from 1- 5 years. Lack of long-term funds to primary lenders presented one major obstacle to the flow of funds to housing. Scholars argued that in order for households to afford housing, the payment stream needs to be spread out over a number of years. Most mortgage lenders are commercial banks that relied mainly on abundant short-term deposits for their funding, and hence are reluctant to extend long-term (more than five years) loans for housing because of the liquidity and interest-rate risks inherent in funding such loans with short-term deposits. And most of the primary lenders did not have sufficient market capacity to raise long-term funds in the capital market at attractive financial terms.

Today the Tanzania Mortgage Re-financing Company Ltd (TMRC) has been in place since 2010 for the intention of providing support to the commercial banks for them to provide long term funding at low interest rate. The study found that the loan repayment period for selected financial institutions has been extended from 1- 15 or 20 years and some others banks like CBA offers up to 25 years, unlike previously (*See Table 4.4*). This definitely encourage large segment of individuals to resorts into housing finance arrangement.

#### **4.4.2 Challenges from the side of the Government**

Despite some recent improvement, land delivery and registration still slow, public-sector has been centred, centralized and non-sustainable. The following hereunder are hindering factor for effective formal housing financing scheme in Tanzania.

#### **4.4.2.1 Stringent Process in Land Delivery**

In Tanzania there are abnormal procedures in land delivery (Refer figure 2.4 under chapter 2). In urban areas, land delivery logically starts after the *declaration of planning areas with acquiring land authority* after exhausting third party interests by paying requisite compensation to all identified land and property owners. In the second step, *physical planning* processes are undertaken. This involves the design of layout(s), for the acquired lands, in accordance with agreed land-use and settlement patterns. Then, the town-planning (TP) diagrams are transferred to the ground through *cadastral surveying* processes that, in Tanzania, are based on fixed land parcel boundaries. The end product of cadastral surveying is the replacement, for purposes of land delivery, of the TP Drawing by a registered survey plan and corresponding data and information are archived. The final stage is the *allocation*, through sale, auction or by other agreed method of all the plots in the survey plan as identified by plot numbers thereon and granting land rights to the recipients. Such urban land delivery in a country has suffered from a breakdown in this chain of procedures, and hierarchy resulting into poor land delivery system in a country. The order and logic of these steps were honoured only for over a decade into independence. In the 1980s the practice broke down. Some processes were deemed unnecessary, outside professional circles, and hence were circumvented by politicians.

#### **4.4.2.2 Cumbersome Process of Mortgage/Land Registration**

The findings show that land register is still paper based and centralized. This results the land registration and transfer processes to become very slow due to inefficient for lack of coordination. The process of mortgage registration in the Ministry of Lands, Housing and Human Settlements Development takes too long to accomplish because its Land Registry is still paper based and the majority of the mortgage disposition applications are concentrated in Dar es Salaam while Zonal offices have few applications. As a result, registration of mortgages takes too long to process because the overburdening of the

land registry with mortgage applications. To compound the problem further most activities in the land registry are still done manually.

To date, the Land Registry offices in Tanzania are situated in zones. These includes the Eastern Zone - Head Quarters (including Dar es Salaam, Morogoro & Coast Region), Central Zone(Dodoma & Singida), Southern Highland Zone (Mbeya,Iringa,Ruvuma & Rukwa); Lake Zone(Mwanza, Mara,Shinyanga, Kagera,Tabora & Kigoma); Southern Zone(Mtwara, Mtwara and Lindi) and Northern Zone (Kilimanjaro,Arusha and Tanga)<sup>10</sup>.

Generally, poor and cumbersome property registration procedures results into most land being not registered. Limited titles have been registered in the past, mainly due to a costly and time-consuming registration process. This has led to the growth of large informal housing stocks, slower economic growth, weakened social protections, and reduced collection of fiscal revenues.

#### **4.4.2.3 Laxity in enforcing town building plans**

In the course of doing this study, it was evidently clear that there is widespread laxity in enforcing legislation on proper town building plans. The mushrooming of unapproved building plans implemented in Morogoro municipality bears witness to this fact. According to available statistics the problem of unplanned and informal settlement growth is appalling in the country. Taking Morogoro municipality as an example, it is said that more than 70 percent of its residents live in poor, unplanned settlement due to difficulties of getting building permit especially to the low and middle income house developers. By implication, and based on an assumption of average household size, 70 percent of all housing stock in Morogoro is built in unplanned areas and they lack title deed. That means such stock does not form part of the formal property system and

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<sup>10</sup>Visit <http://www.ardhi.go.tz/registration.html>-0

constitutes “dead capital” since the owner cannot easily secure a housing loan from financial institutions without title deed.

#### **4.4.2.4 Dualism of Land Administration System**

Land Administration in Tanzania operates under a duality system centralized at the Ministry of Lands, Housing and Human Settlements Development, and in Municipal/District Land Offices that are under the PMO-RALG. The former provides technical leadership and national implementation, the latter – district level operational implementation. There is therefore a need for an efficient institutional linkage of the two in the interest of land administration performance.

Decentralization or devolution of services to be undertaken by the sector Ministry has been talked about with little done on the ground for sometimes now. The practice remains that some issues need to be referred to Dar es Salaam where this could be done in the District if proper policies were put in place.

Discussing the issue of decentralization, SPILL states (Lugoe *et al*, 2005) that operationally, the sector Ministry shall retain the regulatory framework that includes: (i) authority to examine and approve TP drawings, cadastral surveys, and valuation reports; (ii) signing certificates of title; undertaking title verifications, adjudications, transfers and transmissions; and (iii) keeping copies of land records, land-use plans and approved layout designs pertaining to the specific Districts. Further, the day to day activities of the lands sector operatives within LGA at District level after decentralization will be to: (i) establish and maintain framework and thematic data for land delivery processes, (ii) preparation of settlement layouts, (iii) undertake valuations, (iv) administer provisions of the land and other sectoral laws, (v) undertake village boundary surveys and (vi) preside over dispute settlements. The nation awaits the implementation of this key strategic

provision, which will make the land administration system much easier to access and reduce costs and delays to the land users.

#### **4.4.2.5 Concentration of Land Services in Certain Areas**

Concentration of land development services in certain areas of the country with deficiency in others is another of the problematic issues. For example; (i) land-use planning is concentrated in urban areas; (ii) recent township maps are not available in all towns, (iii) urban maps are updated more often than rural maps even as many are out of stock in the latter category; (iv) land registries are located at zonal offices but not even at regional headquarters, making them less accessible; (v) most professional private practitioners are concentrated in the cities, with Dar es Salaam hosting most of the physical planners, valuers, lawyers and land surveyors, followed by Arusha, Dodoma and Moshi, whilst other towns have none; (vi) the practice remains that cadastral surveys, valuation reports and TP Drawings must be approved in Dar es Salaam and land professionals let say surveyor or Town Planner or Valuer from Sumbawanga for instance, must travel to the capital not only to get such work finalized but in many cases to get projects started, through data search, survey instructions, etc.

#### **4.4.2.6 Dilemma with Urban Land Services**

Lands that have been allocated for the planning and development of urban centres in Tanzania are too big to be managed with ease and to be serviced with infrastructure and utilities. Normally the planning authorities allocate lands for the sake of safety and security to the urban dwellers. This increases the infrastructure and utilities (roads sewage, electricity, water, garbage collection) networks and stretches common emergence services (police, ambulances, fire brigades) and other social (schools, hospitals, post offices, banks) services beyond reach. The vivid examples are the newly surveyed plots situated at Lukobe and Kiegeya areas in Morogoro Municipality which does not attract the lender to regard as proper collateral.

#### **4.4.2.7 Inadequate Collateral Foreclosure Procedures**

Inadequate collateral enforcement and cumbersome foreclosure procedures is another key challenge. The repossession of real estate (notably through eviction) in case of borrowers' default was a difficult if not impossible challenge, canceling any stronger collateral effect through applied credit rates (insecure lending). This problem has largely been addressed through the enactment of The Mortgage Finance (Special Provisions) Act No. 17 of 2008 which is a major breakthrough from past practices. The effectiveness of this act is that it allows foreclosure claim in case of defaulting borrowers.

#### **4.4.3 Challenges from the side of the LMIHD**

##### **4.4.3.1 Lack of proper collateral**

Commercial banks are very conservative and only lend money to the borrower with adequate collateral and one able to meet loan repayments, a condition not many Tanzanian can meet in both the formal and the informal construction sector. This limits large segment of households to access financial institutions. The lack of available and accessible housing finance has been identified in the case study area as one of the important hurdles in improving the housing conditions for middle and lower income households. Figures 4.1, 4.2 and 4.3 illustrates the extent of accessibility to housing finance by low and middle income house developers in accordance to age, employment status and education qualifications whereas Figures 4.6 and 4.7 shows the loan trends at two selected commercial banks namely CRDB and Azania Banks respectively.

##### **4.4.3.2 Lack of awareness**

Access to affordable housing and home ownership for most Tanzanian households has been constrained by an underdeveloped housing finance system. Prior to 2012, mortgage market developments and access to mortgage loans in Tanzania have, in general, been impeded by the lack of a conducive legal regulatory and institutional framework, inadequate access to long-term funding, cumbersome property registration

procedures, and lax collateral enforcement and cumbersome foreclosure procedures. The Tanzania Mortgage Refinancing Company Limited (TMRC) being in place since 2010 (and effected early 2013 for most commercial banks), still most LMIHDs are not aware on the available opportunities.

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS**

#### **5.1 Introduction**

This Chapter presents a discussion of the findings and issues that have emerged from the study. The main purpose of the study was to identify and assess the efficacy of formal housing financing schemes for the development of housing sector in Tanzania. Findings from the study pointed the opportunities of FHFS to LMIHDs, the determinant factors for FHFS, the ways adopted by LMIHDs to finance their dwelling units, the extent that LMIHDs access the FHFS offered by commercial banks and the challenges encountered in the course of implementing FHFS in Tanzania.

#### **5.2 Discussion of Findings**

It is up to now understandable that findings have provided ways through which the entire discussion was undertaken in the light of specific objectives and research questions vis á vis theoretical reflections which was done in the following manner.

##### **5.2.1 Opportunities of formal housing financing schemes to LMIHDs**

The study has shown that, formally the loan issued by commercial banks was on short term basis ranging from one up to five years. However the findings indicated that since the beginning of this year (2013), most selected commercial banks (except Azania which initiated since 2002) started to offer long term loan ranging from 10 – 25 years. This goes consistent with the conceptual framework provided under chapter two as well as several scholars like Ball (2003) who argued that, in order for households to afford housing finance schemes, the payment stream needs to be spread out over a number of years. This has been an opportunity to salaried SMIHDS since now are able to borrow and repay back the loan at small installments.

Similarly, the selected commercial banks have imposed a condition to salaried employees who seeks for housing finance to have account with a particular bank and the

balance in the account must be not less than 20% of the applied loan. This scenario implies that the borrower is able to get a loan of 80% of house value. Such environment allows the LMIHDs to manage construction of house units within a shorter time than it could usually be without such arrangements. The advantages of having a house within a short time include income generation through rents, security to the loans at the bank and reputation one gets from the community. These opportunities conform to the benefits and rationale of having HFS as have been pointed out by Kironde *et al* (2003) and Nasr (2010) under chapter 2.

### **5.2.2 Determinant factors for formal housing financing schemes**

Findings have revealed and elucidated many determinant factors for FHFS. Based on information gathered and presented in Table 4.3 about the conditions established by financial institutions in their lending decision; this study then documents that normally financial institutions take into account number of factors before they either favourably or unfavourably make lending decision. In this regards, more precisely banks consider aspects like application forms, title deed, security of employment, salary slip, valuation report, bank statement, income statement, approved building plan, Bills of Quantities (BoQ), spouse consent, interest rate, transfer deeds etc.

Despite considering all of the above enumerated factors, yet there are some of them which still remain more crucial to bank than others. The most common and obvious factors for each financial institutions are the security of employment and submission of a title deed to the bank. In line with employment status and surrender of a title deed as main determinant factors, it has been reported in a recent study by Kironde *et al* (2003) that commercial banks are very conservative and only lend money to the borrowers with adequate collateral items as well as those who meet loan repayments. Such condition cannot be easily fulfilled by many Tanzanian in both the formal and the informal construction sector.

This excludes many from entering the housing construction industry, and only represents few individuals with buildings having title deed elsewhere. The inability of large segment of LMIHDs to access housing finance schemes resulted into slow pace of property development in a country.

### **5.2.3 Patterns of financing housing construction by LMIHDs**

The ways of financing house construction adopted by LMIHDs under the study ranged from the finance issued by commercial banks known as housing finance schemes (HFS), loan from micro-finance institutions; funds from the relatives and friends; personal savings; money from abroad; loans from employers; selling of another house; selling of some plots and private lenders.

However, the most common practice adopted by majority LMIHDs in the study area was the use their own savings to construct their houses. Such savings came from the sale of farms or animals products or some profits accrued from their businesses and reinvested in the construction of houses. This view goes inconsistency with researchers like Nasr (2010) who propounded that without accessing to housing financing options, low and middle income households cannot afford to purchase homes. In such case, most properties remain unfinished for long time with little hope of being completed. The same has been revealed at the case study area where the pace of property development is slow. The findings depict that 75% were incomplete buildings reflecting dead capital in the area and 25% only were complete buildings.

### **5.2.4 Extent of accessibility to FHFS by LMIHDs**

Apart from the determinant factors put forward by financial institutions as discussed in part 5.1.2; the extent of accessibility to FHFS by LMIHDs under the study has been largely influenced by age, education and employment status. The findings revealed that the confidence on decision to approach financial institutions for housing finance scheme may be significantly influenced by employment status that an individual has. This means

individuals in salary cadre committing house construction process normally resorts to commercial banks seeking for housing finance schemes compared to any other category.

Although the opportunities are readily available for housing financing schemes at difference commercial banks, the extent of accessibility to such schemes seemed to be limited if one considers the conditions imposed. For instance, the loan seekers for housing financing schemes are charged at the rate ranged between 18% - 22% on top of surrender of a title deed and other conditions as developed by a particular financial institution as case has been highlighted in table 4.3. In reality, it is very difficult to fulfill such conditions. However, in a unique way and favorable arrangement, National Housing Corporation (NHC) were charged by nine financial institutions at average interest rate of 15.3% given the repayment period of 15 years with a grace period of one year before starting loan repayment. With this arrangement NHC accrued the following benefits: the corporation was enabled to construct many building within a short time. Given the low interest rate and long term repayment period the corporation was enabled to meet loan repayment commitment without problems.

### **5.2.5 Challenges for implementing formal housing finance schemes in Tanzania**

Observations from the study indicate that, the challenges for implementing FHFS in Tanzania have been categorized into three groups namely the financial institutions, the government and the individual loan seekers.

On the side of financial institutions, the findings revealed the main obstacles to be high interest rate charged on top of stringent process imposed. The study noted the difference of more than 10% between the interest rate directed by Bank of Tanzania and those charged by the selected commercial banks. It has been provided in the theory of demand that a rise in the interest rate, all things being equal, leads to a fall in demand for housing finance (Pilbeam, 2005). Moreover, scholars such as Akinwunmi (2009) provide that the interest rate recommended for the house loan should be between 4% and 14%.

Therefore, high interest rates on top of stringent process imposed by commercial banks on HFS obvious limit large segment of LMIHDs accessing the scheme hence slow pace of construction industry in a country.

Similarly, poor and cumbersome land delivery and property registration procedures are the major hurdles of implementing FHFS on the side of the government. In a country there are abnormal procedures in land delivery where seventeen detailed steps in the acquisition of title deed for un-surveyed land have been explicitly shown under the study (*Refer Figure 4.3*). Such procedures results into costly and time-consuming for one to secure a title deed which is among the most important factor taken into account by financial institution during lending process. This has led to the growth of large informal housing stocks. It has been established by different scholars that more than 70 percent of Tanzanians live in informal settlements. Informal housing stock is regarded as improper collateral by financial institutions hence preventing majority low and middle income house developers under this category to seek for housing schemes.

Moreover, lack of proper collateral (such as title deeds and secured employment) and lack of awareness are found to be the main challenges on the side of LMIHDs. As pointed out above, majority LMIHDs are not qualifying for HFS offered by commercial banks for the reason that they lack proper collateral. Besides, majority Tanzanian are not aware on the opportunities (like long-term repayment period) introduced by The Tanzania Mortgage Refinancing Company Limited since 2010 and effected early 2013 for most commercial banks. These situations force the LMIHDs to continue using the traditional way of housing financing which equity financing mainly obtained through (their) own savings; hence limits many of them to involve into smooth construction process.

The findings under this sub-section go in line with what previously pointed out in Chapter Two. It has been reported for example in United Nations (2005) that, the main

obstacles for the development of genuine housing market in many countries comes from *economic barriers* like inflation (which in most cases affects interest rate) and slow economic growth; *socio-economic obstacles* such as employment instability, growing unemployment and a slow increase in real wages; *legislative obstacles* such as poor legal framework on foreclosure and property registration; *cultural obstacles* like cash economy and *institutional obstacles such* as poor institutional frameworks for capital market and banking control.

## **CHAPTER SIX**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

The chapter aims to draw major findings and conclusions which this research study can make on the basis of the research objectives aimed at in studying the efficacy of FHFS by the selected financial institutions. Thereafter the chapter provides the key recommendations as the inputs in the process of redressing the situation regarding the housing financing schemes vital for low and middle income house developers

#### **6.1 Summary of Findings**

The introduction of The Tanzania Mortgage Refinancing Company Limited (TMRC) in 2010 has brought about changes in the housing financing industry in Tanzania. One of the prominent changes is the arrangement of loan repayment period for several commercial banks ranging from 10 – 25 years as discussed in previous chapters. One of the main advantages of such repayment duration is to enable the borrower to distribute the burden of loan repayment and interim interest rate for long time unlike the previous arrangement of short term loan (usually 1-5 years).

Despite of such opportunities introduced by TMRC, still there are several challenges including difficulty conditions developed by commercial banks for one to secure a loan and hiked interest rate charged on housing financing schemes contrary to the directives of Bank of Tanzania. These in facts, limits the extent of accessibility to formal housing financing schemes and consequently the LMIHDs go for traditional ways of housing financing.

The combination of opportunities and challenges highlighted in the study under the current era of financial reforms lead into partial effective and efficiency housing financing schemes for development of housing sector in Tanzania.

## **6.2 Conclusions**

Drawing the main conclusions of this study, the following are going to guide the highlight of the main issues uncovered in this study: The opportunities and effectiveness of FHFS for LMIHDs; The determinant factors for and conditions attached to the FHFS; Patterns of financing house construction by LMIHDs; The extent of accessibility to the loans or schemes issued by the commercial banks to LMIHDs and the challenges for implementing housing financing schemes in Tanzania.

### **6.2.1 Opportunities and effectiveness of FHFS for LMIHDs**

FHFS in the selected financial institutions seem to appear in different forms and bear different interest rates as well as different re-payment periods. For instance NMB bank and CBA have what they call mortgage loans which they charge 19% and 22% as interest rates respectively. For CRDB bank, the scheme is known as housing loan with 19% interest rate which is operationalized as follows: 18% charged for the loan and 1% charged as the insurance cover to the loan secured. Azania bank calls its scheme as home loan and the interest rate for it is 18%. Although each selected commercial bank has its own formal housing finance schemes, it is generally found not conducive for LMIHDs due to high interest rate charged.

Similarly, LAPF has what is termed as pre-retirement housing loan which has the interest rate of 7%. However the ones who qualify for LAPF scheme are those who are the members to the fund and are to be within the period of five years before the compulsory retirement as well as the limit of the loan is only 50% of the lump sum

retirement benefits. Such arrangement seems to be friendly to few members who qualify although it extinguish large group of beneficiaries who could be interested.

Regarding to the question of the effectiveness of the FHFS offered by the selected financial institutions, the general conclusion in this respect is that the high interest rate imposed to the schemes particularly by commercial banks, stringent conditions and the limit of the highest amount of funds most of those who qualify for the loans can get seem to be the disincentive factors to LMIHDs. This is due to the fact that in most cases LMIHDs qualify for small amount of funds which is not adequate to finance fully the construction of the house. Thus as noted in the findings most of the employed individuals applied for the loans and used their discretion in determining the aftermath of such loans. That is whether to use it for construction of houses or other use like purchase of a car. However for other LMIHDs who do not fall in the category of secured employment, it seems that they are obviously being excluded from such opportunities of FHFS in these selected financial institutions.

### **6.2.2 Determinants and conditions attached to FHFS in the selected financial institutions**

The determinant factors and conditions attached to the loans offered by the financial institutions vary from one financial institution to another. The conditions for one to qualify for FHFS in the financial institutions have been categorized in twenty nine dimensions as noted elsewhere in this research report (see Table 4.3 under chapter four). However not all the selected financial institutions attached equal weight on the strength of particular dimensions, taking the dimension of persons who qualify as an example, NMB banks requires those who are employees, professionals or businessmen. For those who are employed need to have their institutions entered the agreement with the bank as well as drawing the memorandum of understanding. For CRDB bank, the qualifying individuals are those in the category of salaried individuals aged between 21 and 59 years and on top of that they must have their employers' guarantee. CBA has opened the

entry to any Tanzanian even those in the Diaspora whose age are above 18% and have fulfilled other conditions attached to schemes. Azania bank provides for individual employees who have account with the bank and the balance in the account must be not less than 20% of the applied loan. LAPF has a bit unique determinant factors and conditions for those who qualify. For the fund, it only targets the members who are at the pensionable age of 55 years old; that is the ones who have just five years before the statutory retirement age of 60 years. The LAPF has also a limit on the amount of loan attached to the lump sum pension amount payable which should not be more than 50% of the payable pension.

### **6.2.3 Patterns of financing housing construction by LMIHDs**

The findings of this study arrive to the conclusion that given the case study area, that is Mlimakola, the patterns of financing housing construction were mainly four, ranked from the one with the highest frequency to the lowest. It seems that personal savings either from the sales of farm and animal products were the most preferred pattern of financing housing construction in the area. The loans from the commercial banks appeared to be the second most preferred pattern. The third and fourth positions were taken by the support from relatives and friends as well as the loans from other micro finance institutions respectively.

### **6.2.4 Accessibility to the loans issued by financial institutions**

The question of accessibility is very much attached or related to the conditions attached to the loans or schemes and the abilities of the loan seekers to fulfill those conditions. Due to the exclusive tendency attached to the determinants the ones who qualify for the loans or to be included in the schemes are also unique in respect to each financial institution. Although the findings (see chapter four) show that the financial institutions have performed well in the awareness creation on the schemes, this initiative has not guaranteed 100% accessibility to those who have applied for the loans. Still there are those who have failed completely to fulfill the conditions attached to the loans.

### **6.2.5 Challenges for implementing housing financing schemes**

The housing financing schemes in Tanzania encounter the challenges from the financial institutions, the government and the individual loan seekers.

#### *Financial institutions*

The main challenges provided by the financial institutions which are directed to the housing financing schemes are the high interest rates and the stringent conditions. Almost all the selected financial institutions except LAPF charge the interest rates between 18% and 22%. Likewise stringent conditions attached to the schemes pose another challenge. These stringent conditions include high costs for loan processing as well as such conditions as one to be in a secured employment and being a member for the case of LAPF who is about to retire. Part of these stringent conditions also include the requirement to have a certain percentage of deposit before given a loan as it is the case with commercial banks.

#### *The government*

Since almost all the financial institutions demand the title deeds as one of the key determinant factors for FHFS, then the cumbersome processes in securing these title deeds seem to be the challenge posed by the government in respect to the housing financing schemes (*Refer Figure 2.4 under chapter two*). On the part of the government other challenges include the laxity in enforcing town building plans and the long procedures in securing the building permits, among others as noted in the findings.

#### *Low and middle income house developers*

The main challenge which tends to limit LMIHDs into accessing the housing financing schemes is the lack of adequate collateral for those who do not fall in the category of secured employment or those who are not the members of the fund in the case of the LAPF. Specifically for LAPF, the fund poses the challenge to those members who are

far from the retirement age. These individuals seem to be excluded from the pre-retirement house loan.

## **6.3 Recommendations**

### **6.3.1 Financial Institutions should look beyond employment and income status**

In a mortgage market such as Tanzania's which is just in its infancy stage; lenders tend to focus on the most credit worthy. It has been noted in this study that commercial banks are very conservative and only lend money to the borrower with adequate collateral. They are overly careful requiring extensive documentation, ample collateral and often personal guarantees on top of the collateral. However the reality is that many Tanzanians are not employed formally. They have inadequate, intermittent and non-verifiable incomes. These are the reasons why financial institutions should look beyond employment and income status but in a safe and secure way. For instance, an individual having national identity card or voters' card should be facilitated for the loan provided he/she qualify for other simple conditions like personal character, past history of debt repayment, possible past criminal record etc. LAPF on other hand should rethink on lending housing finance to the member attaining the age of 40 years being the member for at least 10 years. This will definitely include large segment of house developers to seek for housing finance schemes.

### **6.3.2 The Government should speed up the process of issuing national IDs**

Similar to the necessity of looking beyond employment and income status, the government through National Identification Authority (NIDA) should fast track the national identity cards project which is critical to accelerate provision of credit facilities to a number of low and middle income house developers. At last, Tanzania has began issuing national identification cards (IDs) on 07<sup>th</sup> February 2013, 50 years after parliament passed the law mandating the programme in 1963(cf: [http://sabahionline.com/en\\_GB/articles/hoa/articles/features/2013/02/07/feature-02](http://sabahionline.com/en_GB/articles/hoa/articles/features/2013/02/07/feature-02)). The first ID was issued to President Hon. Jakaya Kikwete at a colourful event held at

Karimjee grounds in Dar es Salaam on Thursday (February 7th) to launch the programme. In his speech at the event, the President said national IDs are important for the provision of services to citizens. “Banks will easily issue loans; agricultural subsidies will now reach the targeted (farmers) accurately ...”. He added that the government would ensure everyone who currently meets eligibility requirements will receive their IDs before 2015. This is the good news for majority low and middle income house developers lacking proper collateral since the bearer will be easily traced in case of default. This will make trust on the side of financial institutions towards the borrower. Therefore what is important is for NIDA to speed up the process of issuing IDs as instructed by the president.

With IDs, now a country has a sound database that can help to trace security information at any time. Some of the networks connected include the Tanzania Revenue Authority, banks, police, telecommunications companies, immigration, social security funds, university admissions and the electoral commission. Financial institutions can easily intercept any caravan and verify the status of an individual having IDs. IDs identify the low and middle income households on the basis of who is doing what and where. This eventually helps the financial institutions to make trustworthy to such large group of individuals in a country.

### **6.3.3 Establishment of Credit Information Bureau**

Likewise, the Credit Information Bureau should be put in place as soon as possible to enable lending institutions to access credit history of their customers whenever they apply for housing loans. The lack of this bureau for all these years in the country has led to high interest rates as lending institutions claim that they charge high interest rates to cover themselves against defaulting borrowers whose prior credit history cannot be established at the time of applying for mortgage loan because there is no Credit Information Bureau in the country. The finance sector needs this Bureau sooner than later.

### **6.3.4 BoT should regulate extraordinary interest rates charged by Commercial Banks**

In Tanzania, interest rates decisions are taken by the Bank of Tanzania (BoT). The Bank of Tanzania official interest rate is the bank rate. This study noted that, Bank of Tanzania has imposed directive to commercial banks regarding the interest rates to be charged which is 8%. Moreover, commercial banks with stake in TMRC such as CRDB bank, NBC, NMB, Exim bank, Azania, Tanzania Investment Bank (TIB), Bank ABC, Dar es Salaam Community Bank (DCB), NIC Bank and People's Bank of Zanzibar (PBZ) get the loans at 10 per cent interest rate.

Despite of this directive and the relief they get from TMRC, the selected commercial banks charge the interest rate ranging from 18% - 22% proclaiming that they tend to minimize risks of defaulting borrowers. This is extraordinary rate. This study therefore recommends that the reasonable interest rate utmost should not exceed 14%. Such rate is friendly and will give relief to LMIHDS and it fall within the recommended range by different scholars.

One of the measures to arrive at such rate is adaptation of interest rate targeting policy. The policy shift announced by BoT recently (cf: <http://www.dailynews.co.tz/index.php/biz/21327-bot-makes-strides-on-interest-targeting-shift>) from reserve money to interest rate targeting is expected to reduce the cost of borrowing as lending interest rates will be pegged on the central banker's rate as benchmark. This means, banks will use the BoT rate as the benchmark on pricing the costs of a loan unlike current scenario where Treasury bills yield rates are used. T-bills fluctuate with inflation rates thus making loans expensive. But on other hand the BoT rates are expected to stabilize over time hence lowering lending costs.

BoT should phase out reserve money policy and bringing in interest rates policy to sensitize the money markets players on the shift. With interest rate targeting policy,

there is need for the banks to revisit their calculations on lending rates to lower their costs. This will definitely encourage large group of low and middle income house developers to resort for housing loan. High lending costs are chocking the economic growth of the country. Economists argue that high rates increase costs of borrowing, cost of doing business using borrowed money and by extension it fuel inflation.

### **6.3.5 The Government should lower or abandon taxes imposed to building materials**

The 20% VAT on housing materials renders houses supplied to low and middle income house developers to be more expensive and unaffordable. Therefore, the government should consider lowering or waiving the VAT charged on construction materials and on house sales.

Some real estate experts claim that house construction costs are higher in Tanzania than in some developed nations. It is recommended that the government should lower housing construction costs by lowering taxes or abandoning some taxes and duties charged to construction materials or subsidize the market where necessary. A vibrant construction industry will eventually bring more revenues to government from increased property tax collected from built houses and office facilities as a result of low construction costs.

### **6.3.6 Proper implementation of the recent Legal Framework**

Mortgage Financing (Special Provision) Act, the new Condominium Act and Tanzania Mortgage Re-financing Company Ltd (TMRC) which have been established recently are not an end by itself. There are other measures that must be taken. The study therefore, recommend the Government and other stakeholders especially land administrators and financial institutions officials to work together in creating a favorable environment for a vibrant mortgage finance schemes which requires an appropriate public awareness, simple and straightforward loan condition, efficient land delivery mechanism and swift

process of facilitating housing loan. These will encourage many LMIHDs to opt for the scheme.

### **6.3.7 Formalizing Informal Settlements**

The government through MKURABITA should speed up the process of formalizing informal settlements in the country to make them “live assets” that can be pledged as collateral for housing loans. This is critically important, since it has been established by different scholar that more than 70 percent of Tanzanians live in informal settlements. What this means is that, more than three-quarters of Tanzanians are not eligible for housing finance (since they lack title deeds) under the current system because lending organizations are not ready to take the risk of advancing long-term loans to people living in informal settlements whose houses, however good they might be, are considered to be “dead assets”. A massive injection of funds is required to empower MKURABITA to carry out the exercise of formalizing informal settlements (including a small part of the case study area-Mlimakola) so that they can be eligible for housing finance loans.

### **6.3.8 Reform on the Land Delivery System**

Noted inefficiency in the administrative system requires improvement in land delivery system especially on processing title deed. To the extent possible, the government should consider privatizing the land supply functions including acquisition, planning and surveying. The government should set up a regulatory and supervisory body to oversee these activities of the private sector. Moreover, approval of land functions such as valuation, survey and registrations should be much decentralized say to each regional headquarters’ level instead of ending up to the ministerial or zonal level.

## **6.4 Area for further research**

Based on this study several areas were seen to be lacking adequate insight and require further studies. It is worth suggesting that empirical study to be done further due to the facts that; prior 2005, house rent was controlled in accordance to Rent Restriction Act of

1984. The Act was abandoned in 2005 hence landlords operates under sound commercial principal. This creates room for dishonest landlords to take advantage and raise house rent overnight. Such house rent spiral definitely affects large group of the low and middle income households. Therefore, other studies are herein recommended but the foremost is to probe on the impacts of ineffective formal housing finance scheme realized in this study vis á vis house rent under the current situation of commercial principal.

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### ***Internet Search***

*www.housingfinance.org/housing-finance/what-is-housing-finance 06 April 2012*

*www.ippmedia.com/frontend/index.php?l=43233 as viewed on 3<sup>rd</sup> July, 2012*

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accessed on 19 December, 2011*

*www.businesstimes.co.tz as viewed on 15<sup>th</sup> December, 2011*

*www.auhf.co.za/tanzaniawriteup.htm as viewed on 16th December, 2011*

## APPENDICES

### APPENDIX I (a)

#### *Questionnaires for low and middle income house developers*

Dear Sir/Madam,

This self administered questionnaire is for collecting data or information for academic purpose and the information will be used only for that purpose and not otherwise. Confidentiality is fully assured in the process of administering the questionnaire. The research upon which the data will be collected using this questionnaire is about the following topic: *The efficacy of housing financing schemes for the development of housing industry in Tanzania: A case study of low and middle income house developers at Mlimakola in Morogoro Municipality.*

It is important to note that, this questionnaire has to be completed by individuals that occupy plots at Mlimakola A or B. I hereby request you to provide an accurate response as possible to the questions as there is no right or wrong answers.

#### **I. GENERAL BACKGROUND**

1. What is your Marital Status? (Please Tick (  ) one box)

A	<input type="checkbox"/>	Single
B	<input type="checkbox"/>	Married
C	<input type="checkbox"/>	Divorced
D	<input type="checkbox"/>	Widow
E	<input type="checkbox"/>	Widower

2. What is your Age? (Tick one box)

A	<input type="checkbox"/>	1-18
B	<input type="checkbox"/>	19-29
C	<input type="checkbox"/>	30-39
D	<input type="checkbox"/>	40 -49
E	<input type="checkbox"/>	50 – 59
F	<input type="checkbox"/>	60 <sup>+</sup>

3. What is the highest form of formal education that you have achieved? (Tick one box)

A	<input type="checkbox"/>	None
B	<input type="checkbox"/>	Primary
C	<input type="checkbox"/>	Secondary
D	<input type="checkbox"/>	Vocational/Technical
E	<input type="checkbox"/>	University

4. What is your current employment status? (Tick one box)

A	<input type="checkbox"/>	White collar job(Civil servant)
B	<input type="checkbox"/>	White collar job(Private Company)
C	<input type="checkbox"/>	Self employed (Specify).....
D	<input type="checkbox"/>	Other (Specify).....

## II. TENURE OF THE HOUSE

5. What is the tenure of the house? (Tick one box)

A	<input type="checkbox"/>	Own
B	<input type="checkbox"/>	Rent
C	<input type="checkbox"/>	Part own/Part Rent
D	<input type="checkbox"/>	Others (Please specify).....

6. What is the form of ownership? (Tick one box)

A	<input type="checkbox"/>	Inheritance
B	<input type="checkbox"/>	Bought
C	<input type="checkbox"/>	Built
D	<input type="checkbox"/>	Others(Please specify).....

If Answer to Qn 6 is C, go to Qn 7

If Answer to Qn 6 is A, B or D, go to Qn 13

7. IF BUILT, did you? (Tick one box)

A	<input type="checkbox"/>	Bought a plot
B	<input type="checkbox"/>	Inherited the plot
C	<input type="checkbox"/>	Others (Please specify).....

8. IF BUILT, who carried out the construction? (Tick one box)

A	<input type="checkbox"/>	Self – Built
B	<input type="checkbox"/>	Local “ <i>Fundi</i> ”
C	<input type="checkbox"/>	Contractor with material
D	<input type="checkbox"/>	Contractor without material
E	<input type="checkbox"/>	Others (Please specify.....)

### III. HOUSING FINANCE

9. When housing is to be acquired, it is either constructed from scratch or a fully erected building is purchased. If constructed from scratch, how much did the plot cost? Tshs.....

10. If constructed from scratch,, how long did takes to complete building construction? .....

11. How much did you spend on construction? (Tick one box)

A	<input type="checkbox"/>	1million - 15 million
B	<input type="checkbox"/>	16m -30m
C	<input type="checkbox"/>	31m – 45m
D	<input type="checkbox"/>	46m -60m
E	<input type="checkbox"/>	61m – 75m
F	<input type="checkbox"/>	75m <sup>+</sup>

12. Can you give value of the property on completion?

Tshs.....

13. If a fully erected building was purchased, what was the cost?

Tshs.....

14. Whether a house is constructed from the scratch or a fully erected building is purchased, how did you finance your house acquisition? (Tick one or more boxes as applicable)

A		Specialized Housing Finance Institution
B		Loan from Commercial Banks(HFS)
C		Relatives and Friends
D		Personal savings
E		Money from abroad
F		Loan from employer
G		Sold another house
H		Sold some plots
I		Private lender
J		Loan from Micro finance Inst.(eg.SACCOS)
K		Other (Please specify).....

15. If you borrowed, what was the rate of interest? .....

16. If you borrowed, what benefits did you get? (Tick one or more boxes as applicable)

A		Property acquisition took shorter period than usual
B		The same property is used to repay a loan through house rent generated monthly
C		The money I could spend for house rent is now used for other household expenditure
D		The same property acts as collateral
E		Reputation
F		Other benefits (Please specify).....

17. If you borrowed, what are the challenges do you experience?

(Tick one or more boxes as applicable)

A		High interest rate
B		Shorter repayment period
C		High borrowing cost involved
D		Stringent process
E		Lack of proper collateral
F		Other challenges (Please specify).....

18. If you have obtained a loan, how do you intend to repay it? (Tick all that apply)

A	<input type="checkbox"/>	Extra work
B	<input type="checkbox"/>	Employment Income (Salary)
C	<input type="checkbox"/>	Reducing household expenditure
D	<input type="checkbox"/>	Sale of valuables
E	<input type="checkbox"/>	Collection of rent from the same property
F	<input type="checkbox"/>	Other sources (Please specify).....

19. If you have a loan, what security was given for the loan (Tick all that apply)

A	<input type="checkbox"/>	The same plot/property
B	<input type="checkbox"/>	Another property
C	<input type="checkbox"/>	Salary
D	<input type="checkbox"/>	Agricultural Land
E	<input type="checkbox"/>	Others (Please specify).....

20. What is the repayment period for the loan? (Tick one box)

A	<input type="checkbox"/>	Less than 24 months
B	<input type="checkbox"/>	25 – 48 months
C	<input type="checkbox"/>	49 – 96 months
D	<input type="checkbox"/>	97 – 144 months
E	<input type="checkbox"/>	Others (Please specify).....

21. Are you up to date with your loan repayments?

A	<input type="checkbox"/>	Yes
B	<input type="checkbox"/>	No

If Yes go to Qn 23, if No go to Qn 21

22. If No, How many months are you behind? (Tick one box)

A	<input type="checkbox"/>	3 – 6 months
B	<input type="checkbox"/>	7 – 12 months
C	<input type="checkbox"/>	Over 12 months
D	<input type="checkbox"/>	Others (Please specify).....

23. What is the reason(s) for default in loan repayment? (Tick one box)

A	<input type="checkbox"/>	Loss of Income
B	<input type="checkbox"/>	Higher financial commitment
C	<input type="checkbox"/>	Excessive Interest charges
D	<input type="checkbox"/>	Others (Please specify).....

24. What is the Present Value of your property? (Tick one box)

A	<input type="checkbox"/>	Less than 20 million
B	<input type="checkbox"/>	21m – 50m
C	<input type="checkbox"/>	51m – 100m
D	<input type="checkbox"/>	Above 100m
E	<input type="checkbox"/>	Don't know

25. The processing of loan applications with the financial institutions usually go through a long process, are you satisfied with the time taken to process? (Tick one box)

A	<input type="checkbox"/>	Very satisfied
B	<input type="checkbox"/>	Satisfied
C	<input type="checkbox"/>	Dissatisfied
D	<input type="checkbox"/>	Very dissatisfied

26. On application, what percentage of the loan requested did you get? (Tick one box)

A	<input type="checkbox"/>	50%
B	<input type="checkbox"/>	60%
C	<input type="checkbox"/>	75%
D	<input type="checkbox"/>	100%
E	<input type="checkbox"/>	Other (Please specify).....

27. Where did you obtain the remainder of the funds needed for your house acquisition? (Tick all that apply)

A	<input type="checkbox"/>	From friends and families
B	<input type="checkbox"/>	Private lenders
C	<input type="checkbox"/>	Employer
D	<input type="checkbox"/>	Others (Please specify).....

28. If a loan is available, will you be willing to borrow to buy another house? (Tick one box)

A	<input type="checkbox"/>	Yes
B	<input type="checkbox"/>	No
C	<input type="checkbox"/>	Don't know

29. If a loan is available, what should be done to attract you to borrow? (Tick all that apply)

A	<input type="checkbox"/>	Lower interest rate (Please specify).....
B	<input type="checkbox"/>	Repayment period should be longer (please specify).....
C	<input type="checkbox"/>	Borrowing Process should be shorten
D	<input type="checkbox"/>	Other (please specify).....

30. What kind of security can you offer for a loan? (Tick all that apply)

A	<input type="checkbox"/>	The house itself
B	<input type="checkbox"/>	Any other property
C	<input type="checkbox"/>	Salary
D	<input type="checkbox"/>	Agricultural Land
E	<input type="checkbox"/>	Others (Please specify).....

31. How much do you save per month? (Tick one box)

A	<input type="checkbox"/>	Nothing
B	<input type="checkbox"/>	0- 99,000
C	<input type="checkbox"/>	100,000 – 299,000
D	<input type="checkbox"/>	300,000 – 499,000
E	<input type="checkbox"/>	500,000 – 999,000
F	<input type="checkbox"/>	1,000,000 -2,000,000
G	<input type="checkbox"/>	2,000,000 <sup>+</sup>

32. What is your personal income per month? (Tick one box)

A	<input type="checkbox"/>	Nothing
B	<input type="checkbox"/>	0- 99,000
C	<input type="checkbox"/>	100,000 – 299,000
D	<input type="checkbox"/>	300,000 – 499,000
E	<input type="checkbox"/>	500,000 – 999,000
F	<input type="checkbox"/>	1,000,000 -2,000,000
G	<input type="checkbox"/>	2,000,000 <sup>+</sup>
H	<input type="checkbox"/>	Other (Please specify).....

*Thanks you for participating in this Research.*

**APPENDIX I (b)**

**Questionnaires for Financial Institutions**

Dear Sir/Madam,

This self administered questionnaire is for collecting data or information for academic purpose and the information will be used only for that purpose and not otherwise. Confidentiality is fully assured in the process of administering the questionnaire. The research upon which the data will be collected using this questionnaire is about the following topic: *The efficacy of housing financing schemes for the development of housing industry in Tanzania: A case study of low and middle income house developers at Mlimakola in Morogoro Municipality.*

Six selected sample institutions includes CRDB (Morogoro Branch), NMB (Mt. Uluguru Branch in Morogoro), Commercial Bank of Africa and Azania Bank; both based in Dar es Salaam. Others are non bank, namely Local Authority Pension Fund (LAPF) and Shelter Afrique both operating in Dar es Salaam. Completion of the attached questionnaire will take approximately 10 minutes, and all questions can be answered by following the simple instructions as indicated on the questionnaire. I hereby request you to provide an accurate response as possible to the questions as there is no right or wrong answers.

1. Organisation name.....

2. What is your occupation at the organisation?

.....

.....

3. At your organisation, do you offer loan to business/commerce?

A. Yes

B. No

**If yes:**

- 4. At what interest rate do you charge?.....
- 5. What is the range of repayment period? .....
- 6. What important condition for one to acquire such a loan?.....  
.....
- 7. What is the response of small and middle income households on borrowing at your institution?
  - A. High
  - B. Moderate
  - C. Low
  - D. Poor

- 8. At your organisation, do you have any sort of housing finance product?
  - A. Yes
  - B. No

**If Yes go to Qn 9, 10,11, 12 & 13, if No go to Qn 14**

- 9. What is the name of such product?.....
- 10. What interest rate do you charge currently?.....
- 11.(a)What is the range of repayment period? .....
- (b) If it is above 5 years, when did you started to charge such range of time
- 12. What is the pre-requisite/condition for one to secure such a loan?.....  
.....
- 13. What opportunities do the households get from such loan?.....  
.....  
.....

14. If question No. 8 is no; are you having any future plan to lend housing loan to low and middle income house developers?

- A. Yes
- B. No

15. If question No. 14 is yes, what are the challenges facing your organisation in implementing the same today? .....

.....

.....

Your organisation is among of nine institutions which signed a mortgage finance deal of Tshs. 165/= billion with NHC recently.

- 16. At what interest rate do you have charged NHC?.....
- 17. What is the repayment period for the loan agreed? .....
- 18. What are the benefits do you think NHC can get from such arrangement?.....
- 19. How many applicants of housing/mortgage loan for the past five (5) years?.....
- 20. How many were succeeded to get a loan?.....
- 21. What was the range (amount) of loan borrowed by majority of them?.....

*Thanks you for participating in this Research*