

Housing Microfinance in Tanzania



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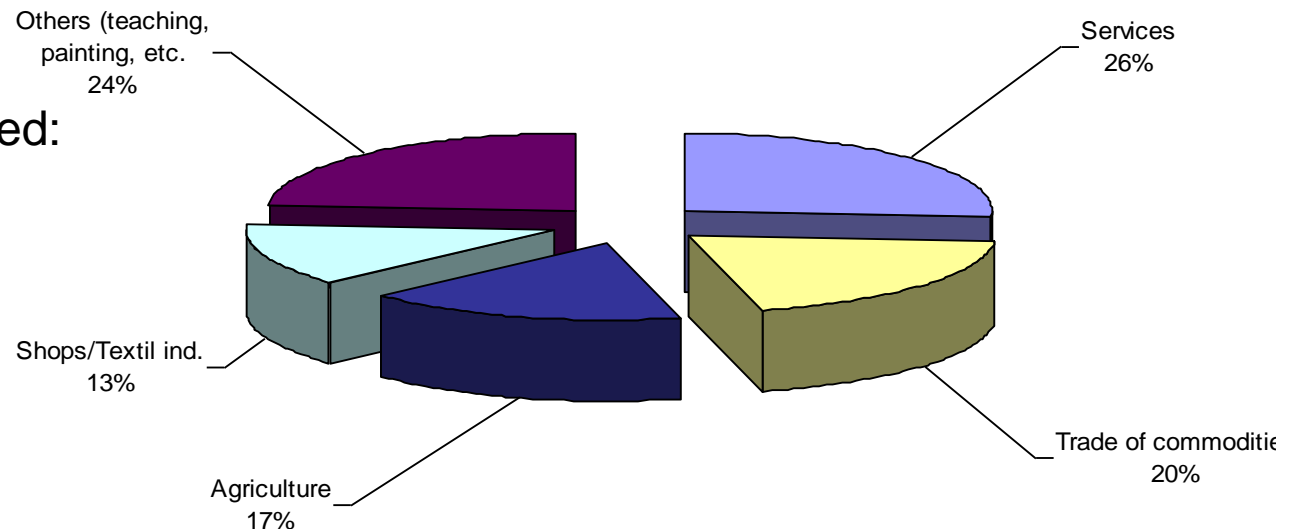
Structuring of survey and questionnaire

- Questionnaire finalized and translated in Swahili
- Five sections (background, income & expense situation, borrowing experience, savings experience, demand for housing & financing) and 77 questions
- Eligible households for the survey:
 - Households in different mainland regions of Tanzania (Dodoma, Dar es Salaam, Mwanza, Mbeya, Morogoro, Arusha) and Zanzibar
 - Age of respondent between 20-60
 - 983 households contacted in mainland Tanzania and Zanzibar
 - 600 completed interviews with eligible households (aiming at completing 100 in each region)

Major findings – Composition of respondents

- 50.5% of the interviewed were male and 49.5% female
- 68% of respondents are entrepreneurs/self-employed, 12% are employed in the public sector; 8% are employed in the private sector; 3% do not actively work (i.e. housewife)

- Of the self-employed:

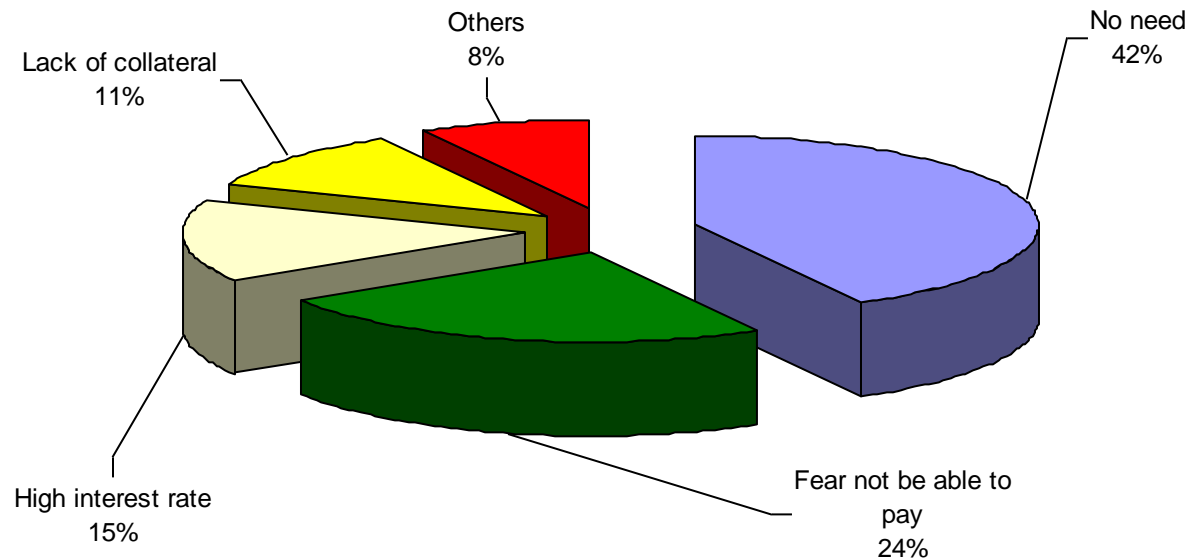


Major findings – Income and borrowing experience

- 74% volatility of income, 26% rather stable income though second half of the year records higher income
- On average 68% of income is generated from business activities, 20% from salaries, 17% from agriculture
- Only 28% have evidence of their income; the majority, 72% don't!
- Income expenditure: 37% food and clothing, 12% electricity/water/telephone, 10% transportation, 10% school fees, 9.5% medical bills, 8% assistance to relatives

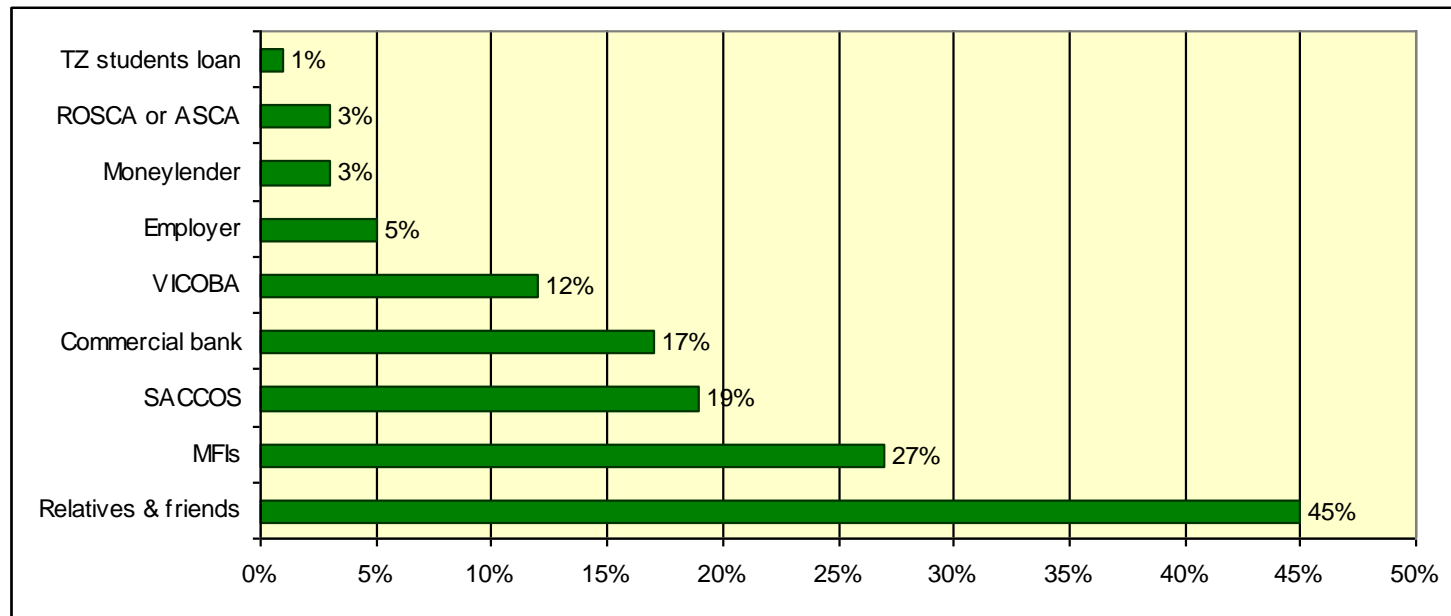
Major findings – Income and borrowing experience cnt.

- 43% of the respondents have had borrowing experience in the past!
- Reasons for not borrowing in the past (of the 57%):



Major findings – Income and borrowing experience cnt.

- Source of borrowing: friends and relatives, microfinance institutions, SACCOS, commercial banks



- Lower interest rates, shorter processing time and simple loan processing seem to be the preferred reasons for choosing a lending institution. Same factors apply when choosing a new lender

Major findings – Income and borrowing experience cnt.

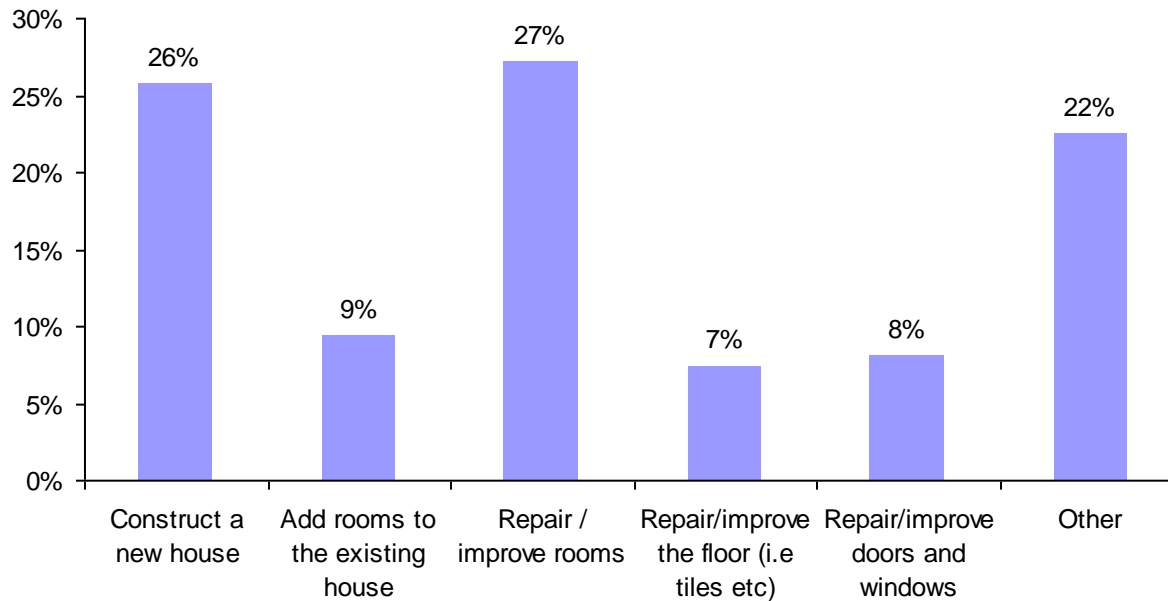
- Average loan size TZS 1.3 million
- Short maturities of 10 months on average
- Loan purpose: expansion of business (38%), working capital (17%), school (20%), personal use (15%)
- 60% of the respondents considered the loan amount sufficient
- 55% of loans paid back on a monthly basis
- 21% of the respondents very often had problems in paying back the loan

Major findings – Savings experience

- 53% of respondents have savings/current account;
- 90% of respondents save; the large majority saves in a commercial bank (57%) or a village community bank (44%);
- On average respondents save TZS 83,000 per month
- Purposes for savings: children's education (35%), business expansion (31%), purchase of equipment/tools for business (14%), home construction (12%), home improvement (7%)
- Only 26% receive remittances which they use mostly for personal use

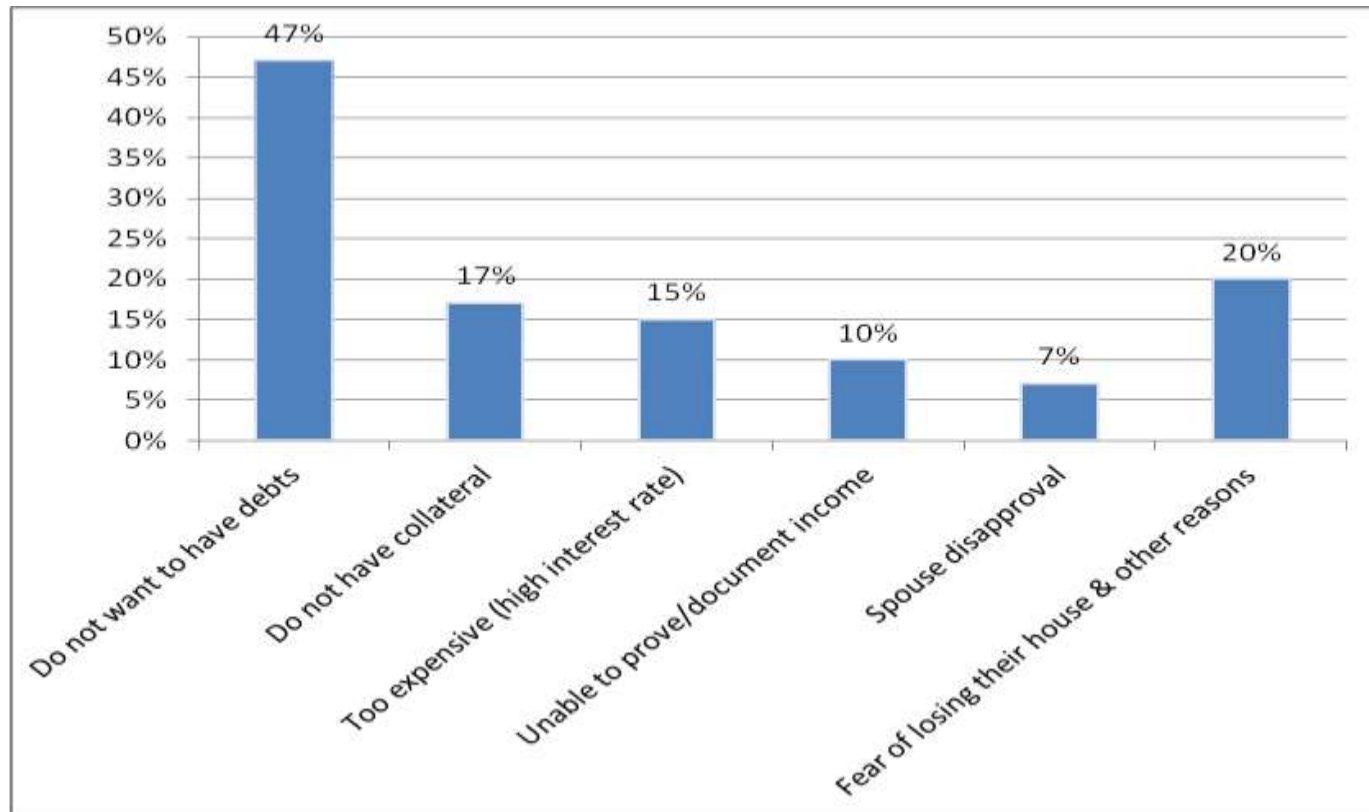
Major findings – Overview of demand for housing

- Construction/investment plans:



Major findings – Overview of financial plans

- 41% of respondents intend to obtain a loan for financing the investment; reasons for not obtaining a loan presented in the chart



Major findings – Preference of loan features

- On average the respondents plan to spend TZS 4.8 million in construction/improvement work
- The amounts they want to borrow are consistent with the investment spending and own contribution
- They want their monthly debt payment to be at around TZS 130,000 (less than half of the average available monthly income)
- 23% of respondents can provide certificates of occupancy as collateral; 24% can provide business assets; 11% has no collateral

Supply of housing microfinance

- Commercial banks are not active in the housing microfinance market (Akiba Commercial Bank being an exception). They are however aware that parts of their consumer loans get diverted to housing investments
- The situation among the microfinance institutions is mixed. PRIDE and EFC for instance are active in the sector whereas FINCA and Opportunity International are not
- Community Banks are becoming active in the sector starting from a low base (i.e. Dar es Salaam Community Bank)
- Many SACCOs are “diving” into housing microfinance due to the increasing demand pressure from their members
- The current supply of housing microfinance is limited and hardly exceeds TZS 2 billion

Supply of housing microfinance cnt.

- Why the “apathy” on the financial sector side?
 - Conservative approaches in lending due to low payment capacities of customers
 - Wrong perceptions that housing microfinance = consumer lending; non-productive use; resistance from international finance institutions or funders
 - Lack of long term refinancing resources
 - Lack of specialized knowledge, skills and resources to bundle housing microfinance products with technical services support (i.e. access to land, construction materials, building technology etc.), hence need for capacity building support
 - Difficulty to cope with larger portfolios of higher quality

Gap analysis

- Potential demand for housing microfinance estimated at over USD 400 million
- Demand based on the results of the study and additional assumptions (average loan of TZS 3 million)
- Gap between demand and supply for housing microfinance is significant; it comes as result of demand and supply constrains
- Financial industry should aim to at least fill 5%-10% of the gap in the next 5 years

Gap analysis – what financial products to offer?

	Home Improvement Loan	Home Construction Loan
Target group/market	Low income families. This includes both self-entrepreneurs and salaried employees, though the focus is on the former.	Low income families. This includes both self-entrepreneurs and salaried employees, though the focus is on the former.
Type of work/project financed	<ul style="list-style-type: none"> ▪ Home improvement (repair or item replacement in the existing living space. i.e. new doors, windows, tiles, sink etc.) ▪ Home extension (adding new rooms, kitchen, bathroom. Second floor etc.) ▪ Home completion (completing an unfinished structure; i.e. fence, roof, connection of utilities) 	<ul style="list-style-type: none"> ▪ Home construction (construction of a new structure, including land purchase)
Loan amount	Max. TZS 6 million	Max. TZS 20 million
Term	Max. 48 months	Max. 60 months
Interest rate	Variable or fixed depending on the characteristic of funding sources	Variable or fixed depending on the characteristic of funding sources
Collateral	Alternative form of collateral: co-borrower, guarantee. If available, title of the property	Title of the property

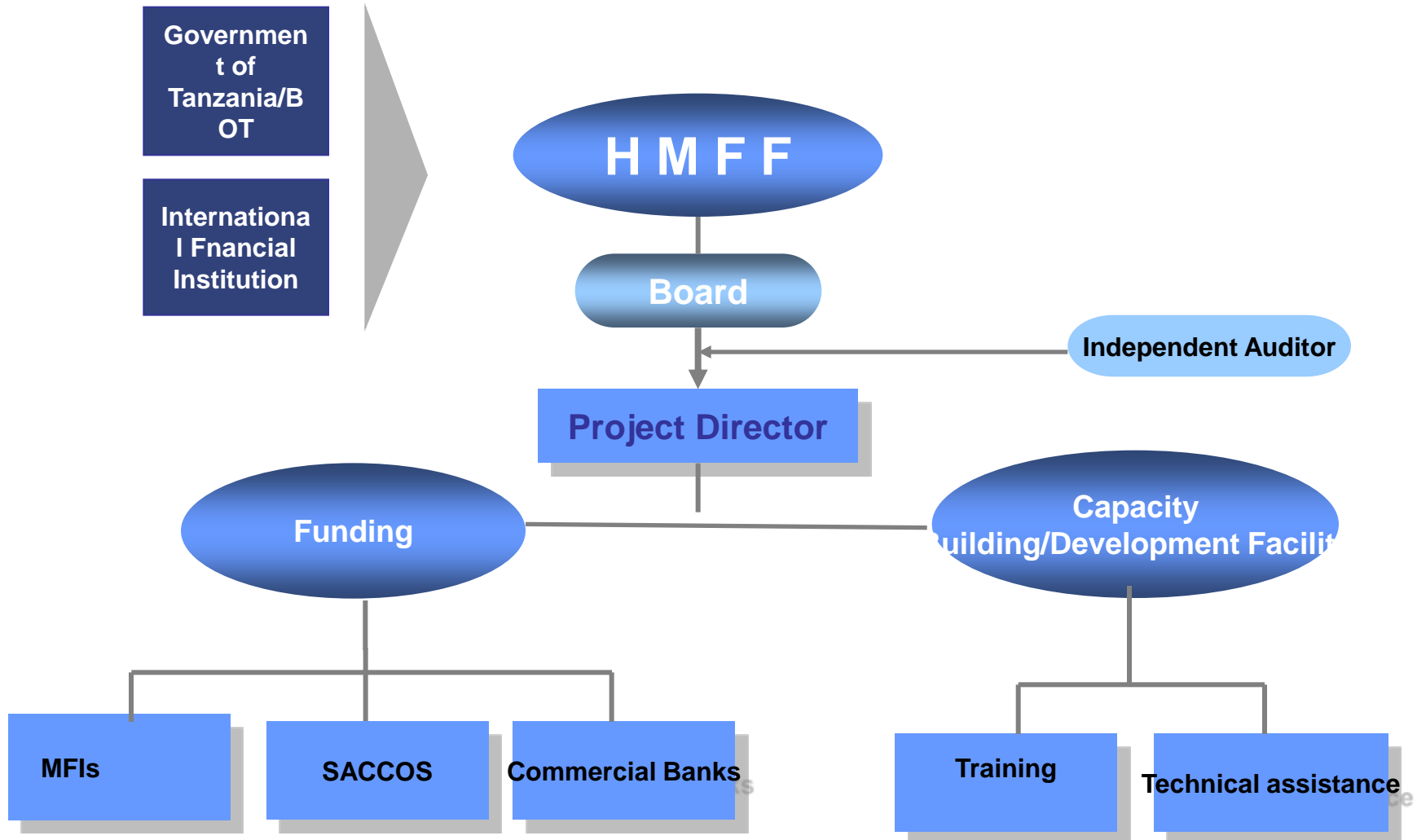
Gap analysis – what financial products to offer

	Home Improvement Loan	Home Construction Loan
Credit assessment methodology	Cash-flow based on household or business activity income; microfinance lending methodology should apply!	Cash-flow based on household or business activity income; microfinance lending methodology should apply!
Redemption method	Monthly repayments of principal and interest	Monthly repayments of principal and interest
Grace period	n.a.	Up to 3 months on the principal
Loan to value ratio (% of construction costs financed)	Up 80% of the project costs	Up 80% of the project costs
All debt to income ratio	40%	40%
Disbursement method	No cash disbursement desired; preferred disbursement method through payment of construction material supplier	No cash disbursement desired; preferred disbursement method through payment of construction material supplier or land seller

Need for Housing Microfinance Fund?

- The results of the study highlight the need for funding and capacity building measures in the sector
- A structure that can roof both elements (funding and capacity building) is needed i.e. Housing Microfinance Fund
- The Fund can support microfinance institutions in introducing housing microfinance products
- The Fund could aim at standardizing products, forms and documentation for housing microfinance (increased transparency for customers)
- Coordination between both wings (funding and capacity building) should help overcome the gaps and advocate for housing microfinance in the financial industry

Example for the structure of Housing Microfinance Fund



Next important steps

- Consultations among stakeholders on the most appropriate Fund structure
- Decision making and sourcing of funding (national or international)
- Establishment of Housing Microfinance Fund that should act as a focal point of housing microfinance industry
- Performance assessment three years after establishment (i.e. number of financial institutions accessing funding and capacity building measures; number of households supported through finance etc.)



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