Country Report

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Tanzania

LANDSCAPE OF INVESTMENT

BACKGROUND

The report presents and in-depth analysis of the landscape of investment in Tanzania. It provides useful data on existing DFI investors, the type of instruments they use to invest and the investment environment they operate in. The report forms part of The Centre for Affordable Housing Finance's **Investor Programme** which aims at quantify the breadth of investment activity with respect to housing and housing finance across Africa, and to establish a mechanism to track this on an ongoing basis. This project has collected data and highlights gaps and opportunities in the investment landscape. With the aim of stimulating greater investment in affordable housing and connecting investors with potential investments, the report profiles investors and investment instruments with the greatest impact on the housing finance market within the EAC Region.

Growing financial sector experience and increasingly sophisticated financial instruments are driving investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localized construction material industry and innovations in housing finance such the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa[1].

However, a key barrier to this growth remains the chronic lack of rigorous data on the breadth and character of financial infrastructure investment. This is particularly true for the housing sector as stimulating targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets (segmenting and quantifying the demand side; and scoping, understanding and tracking the supply side), we can support a better policy environment & increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of Non-performing loans (NPLs) and poor uptake of new residential developments[2].

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

www.housingfinanceafrica.org

1 See the Tanzanian Mortgage Refinancing Company (TMRC) and the Nigerian Mortgage Refinancing Company (NMRC) established under financial sector development projects of the World Bank

2 In late 2016, the DFCU, the third largest provider of mortgage finance in Uganda, hit its cap for the real estate sector of UGX 160 billion (20 percent of the bank's total exposure), and has since halted the provision of mortgages. What triggered the halt was the bank's benchmarks of 8% for the Portfolio at Risk and the Non-Performing Loans of 2%. It is also worth noting that loans that were booked in USD had a major effect on exposure as the dollar appreciated more than the shilling over a period of five years.

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PROFILES OF INVESTORS

The investment landscape in Tanzania, constitutes both local and foreign institutional investors. Below is a description of the two categories of investors, including their institutional type, sources of capital, and other parameters that define their investment model, for the housing industry in Tanzania.

Local Institutional Investors

Tanzanian Mortgage Refinance Company

Tanzania Mortgage Refinance Company Limited (TMRC) is a private sector institution owned by Tanzanian banks with the sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios. The TMRC was formed in 2010 as part of an initiative by the Tanzanian government and the World Bank to increase citizens' access to mortgages in the country. It is one of the three components of Tanzania's Housing Finance Project (HFP) which is geared towards the development of the mortgage market in Tanzania, along with the development of housing microfinance and the expansion of affordable housing supply. TRMC has refinanced several banks including CRDB, Azania Bank, Bank of Africa, EXIM Bank, BancABC, I&M Bank and DCB Commercial Bank.

TMRC draws its funding from capital contributions and lines of credit. Specifically, was established with a US$10 funding from International Development Association (IDA) of which $40M was in form of a loan and $60M was technical support. Additional funding was obtained in form of paid-in share capital amounting to $8.8 million from its shareholders, currently consisting of 12 commercial banks.

The establishment of TMRC, under the Housing Finance Project, and its subsequent operations has had a constructive impact on interest rates. TMRC member banks can currently borrow from the TMRC at 11.5 percent and are therefore able to extend mortgage loans to their customers at lower mortgage interest rates than those prevailing in the market (between 19% and 22% in 2010) thereby positively impacting on mortgage affordability in the country. By regional standards, the impact of the TMRC seems marginal, since the interest rate in other Partner States is about the same. On positive note though, the TMRC did not exist, the rates would be as high as 25% and above.

Additionally, there has been an extension of the average mortgage loans' period from 5-10 years to 15-20 years. From the bank's perspective, TMRC has eased their liquidity challenges with the possibility of refinancing the existing mortgage portfolios. The resultant impact has been a higher appetite of banks for mortgage loan products. The number of financial institutions offering mortgages has been steadily rising and currently stands at 28 (from 3 institutions in 2010). The company provides a critical link between investors and housing markets, ensuring the much needed capital is invested in growing country's housing resources.

The Pension Sector

Tanzania's pension sector has been instrumental in organizing long-term funds for the housing sector. Tanzania has the highest number of banks in the East African region. At 57 banks, the country's banking industry has been at the forefront in competing for pension assets through attracting highly priced deposits from the registered pension funds. Pension funds account for 6.4% of bank deposits. Only a maximum of 35% of pension assets may be placed with financial institutions as deposits. Additionally, only up to 30% of pension assets may be invested directly in the real estate sector. This limit, however, restricts the amount of long term funding available for mortgage lenders in the sector.

A notable initiative by the pension sector, targeting modest income earners, has been through the Watumish Housing Company – Real Estate Investment Trust (WHC-REIT). Watumish Housing Company was established in 2013 as a government owned property development and Fund Management Company focusing on development of affordable housing units for public servants. The WHC-REIT licensed in 2015, attracted seven public institutions namely; PPF Pensions Funds, National Social Security Fund (NSSF), Public Service Pension Fund (PSPF), LAPF Pensions Fund and GEPF Pension Fund, the National Health Insurance Fund (NHIF) and National Housing Corporation (NHC). All seven Funds injected a total of TZS 68 Billion (US$30.4M) as initial capital for the REIT, with subsequent contributions expected to increase funding to TZS358 Billion (US$160M) by 2020.

The main objective of this closed REIT (exclusively owned by government pension funds for the first 3 years) is to construct 50,000 affordable housing units for the low income earning public segments. Establishment of WHC by the government was largely driven by the realization that financial intermediation by the banking industry had not supported housing affordability through its minimal impact on reduction of interest rates. This had left the majority of least paid public servants out of the home-ownership bracket.

Previous projects undertaken by other government owned property developers including National Housing Corporation (NHC) and Tanzania Building Agency (TBA) had delivered highly priced housing units, owing to the high cost of funding from the banking sector. WHC would then be established to develop initiatives for unlocking access to long-term deposits in the pension sector, among other sources, without necessarily going through commercial banks. This has so far reduced the company's borrowing cost from 18% on average to about 14%. The target rate is 10%, which the company hopes to achieve over the long term to support construction of affordable housing units. In the context of the income levels, particularly for salaried public servants, housing affordability translates into housing units with prices ranging from US$10,000 to US$ 40,000, with the bulk of prospective home-owners fitting in the US$ 20,000 bracket.

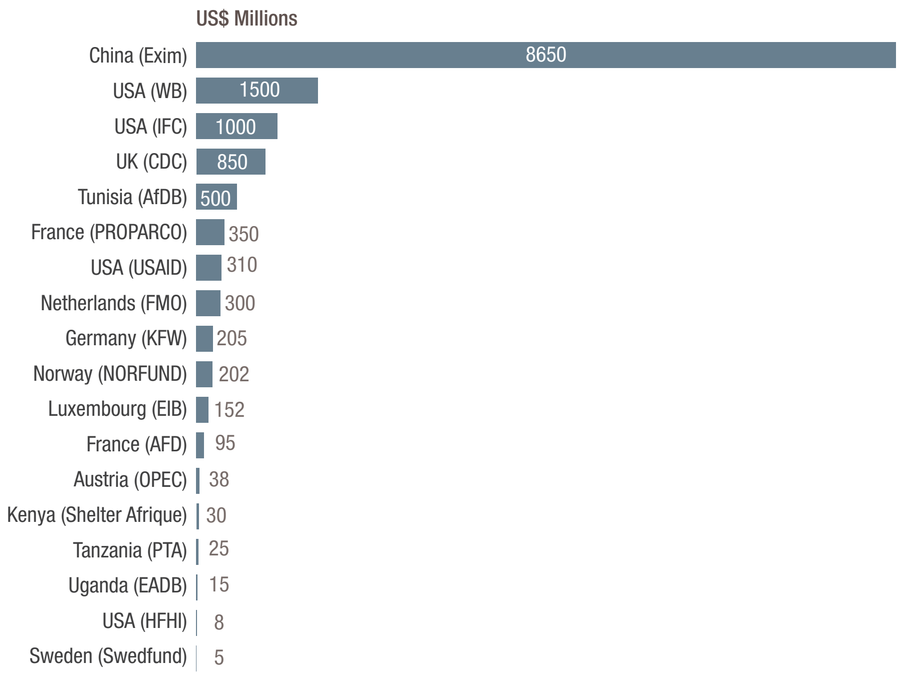
Local Savings Schemes

About 80% of Tanzanians live in rural areas well served by Savings and Credits Cooperative Societies (SACCOS). Most of the SACCOs operating in Tanzania are structured to advance micro loans to clients against their savings. Members of the SACCO routinely take out personal loans used for construction and home improvement. The challenge for the SACCOs has been a low rate of savings mobilization to support substantial borrowings for housing micro loans. To close this gap, some SACCOs have sought funding from the National Social Security Fund – the largest provident fund in the country. Over the years, NSSF has been lending up to 50% of the SACCOs' equity to support their lending capacity. To date, the Fund has advanced over TZS 70 billion to SACCOs.

Foreign Institutional Investors

Tanzania has attracted US$ 14.2 billion in long-term funding from 18 institutional investors (Fig. 17). As is the case with Rwanda and Kenya, China (through Exim Bank – US$ 8.6 billion) is home to the biggest investor in Uganda, followed by USA (WB – US$ 1.5 billion and IFC US$ 1 billion), the United Kingdom (CDC – US$ 850 million), and Tunisia (AfDB – US$ 500 million). 12 out of the 14 DFIs committed over US$ 100 million, in the period 2000 to 2017. Four investors (Tanzania – PTA, Uganda – EADB, USA (HFHI) and Sweden (Swedfund), individually, raised less than US$ 30 million, during the period 2002 - 2017. Section 1.2.1 provides details on the investors' source of capital and other parameters that define their investment models.

Institutional Investor, Location and Total Asset Allocation to Tanzania (2000 - 2017)

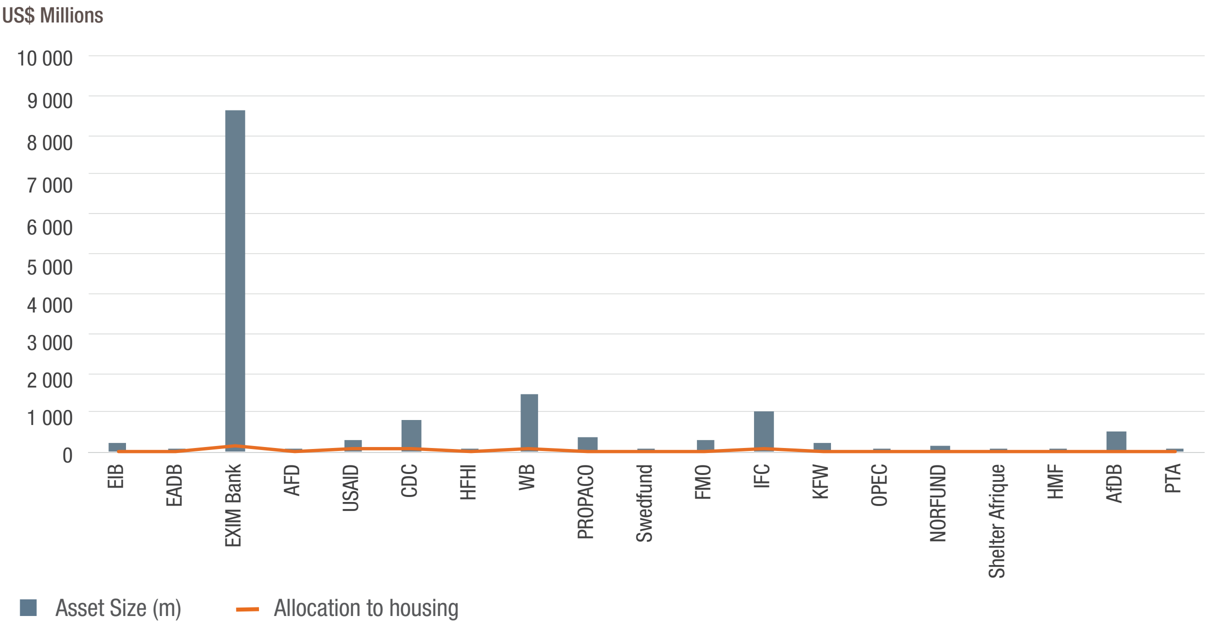


Source: Institutional Investors' Annual Reports (2000 – 2020)

Total Assets vs. Assets Allocated to Housing and Housing Finance Activities

In period 2000 – 2017, close to 9% (US$ 820 million) of the total assets (US$ 14.2 billion) – Fig. 20, of DFIs was committed to activities that have a direct impact on the housing and housing finance sector in Tanzania. China Exim Bank and the World Bank were biggest investors, committing US$ 200 and 100 million, to the sector, in that period.

Total Asset vs. Assets to Housing Allocation to Tanzania (2000 - 2017)



Source: Institutional Investors' Annual Reports (2000 – 2020) and Consultant's Estimation

Investment Activity in Housing

This sections analyses the different investment tools targeting the housing and housing finance sector in Tanzania, their investment horizon and the period of investment.

Top Performing Investment Tools

Loans (lines of credit) dominate (95%) the investment tools, used by Institutional Investors, in Tanzania's housing market, as illustrated in Figure below. As discussed in Section 3.2.1, loans dominate, because DFIs are fixated on generating profit from their investments on housing. Below is a description of other top performing investment tools that have shaped Tanzania housing and housing finance industry.

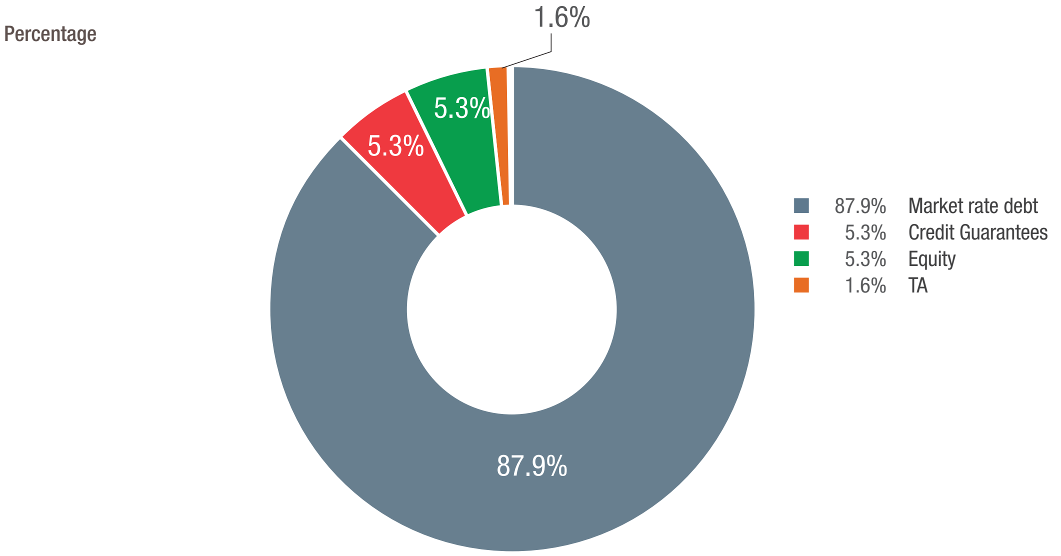
Technical Assistance

IDA loan of $40M to TMRC and additional financing of US$60 million equivalent allocated across the three existing components, and covering Project Management costs. Component 1 includes US$40 million extended to TMRC for provision of a reliable source of longer-term funds to mortgage lenders. A key aspect of this component was the continued assistance in securing a long term funding source for TMRC, including bond issuance or alternative financing, building on the ongoing technical assistance program.

The project supports a gradual move from IDA funded financing to full market priced bond financing, by blending the two sources of funding. In order to encourage TMRC to become financially sustainable by project closing, a disbursement mechanism was introduced whereby TMRC has access to US$10 million to be allocated on a 1:1 basis following bond issuance. Component one also supported technical assistance activities in the amount of US$800,000 consistent with the component's objective of contributing to the development of the mortgage market, including (i) hiring a resident accountant for TMRC bond issuance; (ii) review options for moving mortgages down-market; and (iii) housing finance education (which would continue to support consumer financial literacy and dissemination activities throughout the AF period). Component two includes US$15 million to scale up the HMFF pilot as well as the following technical assistance activities amounting to US$500,000: (i) Training and capacity building on HMF; (ii) Supply of IT Equipment for the HMFF. Component 3 consists entirely of technical assistance activities.

Other international DFIs, including AFDB and EIB have provided Technical Assistance, on a number of capacity development issues in Tanzania. EIB's model is to support the local lender with capacity to conduct credit business by attempting to meet the capacity building gaps identified at each individual lender. Their model therefore begins with assessing the training needs of the lender and structuring appropriate training programmes to cover the identified knowledge gaps. AfDB on the other site prefers to address a general theme such as environment, social or development impact assessment. The DFIs then invites participants from selected partner institutions for workshops to popularize the agenda in those institutions. A key challenge with most TA programmes has been inadequate focus on the specific needs of affordable housing finance. To benefit the housing sector, Technical Assistance programmes need to be tailored to the needs of housing and housing finance sector, with particular focus on the design of affordable products, underwriting of non-formal sources of credit to secure housing finance.

Top Performing Investment Tools for Tanzania's Housing Market



Source: Annual Reports of Institutional Investors

Credit Enhancements and credit guarantees

Credit guarantees can go a long way in aiding the fund sourcing arm of the local lender. One such arrangement of note is between the African Development Bank and TMRC. In May 2016, AFDB approved a Partial Credit Guarantee (PCG) of up to US $4 million in local currency to Tanzania Mortgage Refinance Company (TMRC). The PCG is aimed at supporting TMRC's proposed Medium Term Note Program to raise long-term funding from the Tanzanian local currency bond markets on the Dar es Salaam Stock Exchange (DSE) for on-lending to local banks for mortgage finance operations. The PCG will enable TMRC's bond to meet minimum requirements for listing on the DSE thereby enhancing TMRC's capacity to mobilize critical long-term funding required for the growth of Tanzania's housing finance markets, and catalyzing the construction of affordable housing.

Investment Portfolio, Activity/Tool, Horizon and Period (Timeframe)

Table 13 below summaries investment portfolio, activity/tool, horizon and timelines committed by institutional investors in Tanzania's housing and housing finance sectors.

Portfolios and Products of Institutional Investors in Tanzania's Housing Finance Sector

Investor	Allocation to Housing (Millions USD)	Investment Activity/Tool	Horizon (Years)	Period (Years)
EIB	35	Support for building, manufacturing, construction sector	8	2005 - 2015
World Bank	100	$40M Line of credit through IDA and $60M support for establishment and support to The Mortgage Refinance Company. Supported over 12 mortgage banks	10	2000 - 2017
AFD	15	Housing finance support for creation of mortgages	7	1997 - 2016
CDC	55	Long term funds for SME support across several sectors	7	2000 - 2017
HFHI	8	Home improvement and establishment of affordable housing.	5	2000 - 2017
PROPARCO	56	Long-term loans enabling banks to offer long term facilities to the housing sector.	10	2008 - 2017
FMO	25	Supported business growth and ability of banks to offer mortgages.	7	2005 to 2017
IFC	80	A mix of both debt and equity in the banking system. Additional guarantees are given.	10	2008 - 2016
AFDB	35	Debt, equity, quasi-equity products, guarantees and syndicated loan products	10	2002 to 2017
USAID	30	Long-term loans enabling banks to offer long term facilities to the housing sector.	10	2002 - 2016
KFW	15	Medium to long term finance, supporting several SMEs across sectors of the economy.	10	2011 - 2016
Shelter Afrique	30	Line of Credit to enable several banks refinance their mortgage loan books	10	2000 - 2016
Dar Stock Exchange	70	Equity and debt instruments for banks to raise long term finance to support mortgage lending.	10+	2002 to 2017
TMRC	50	Mortgage refinance for over 15 banks, enabling them to create new mortgages.	15	2012 - 2016

Source: KII with Banks and Annual Reports of Institutional Investors

Impact of Investments on Rwanda's Housing Industry

The Breadth and Depth of Housing and Housing Finance Products

Mortgages

From Table 14 below, the total portfolio that has been directly invested in the residential housing and housing finance sector, was estimated USD 154.7 million, by the end of Q4 of 2016. The number of housing finance loans generated from this portfolio were 1,346 (10% of which were advanced to modestly sized property developers). Assuming the property developers set up 50 units each, all would account for about 5 000 mortgages. As an estimate, therefore, Tanzania has about 7,000 mortgages. This represents ONLY 1% of individuals in formal employment. This clearly indicates that the breadth and depth of institutional investments has been significantly shallow, and indeed, calls for more innovation in which long-term funds are sourced and utilized to broaden their impact, particularly among modest income earners.

Characteristics of Tanzania's Housing Finance Market

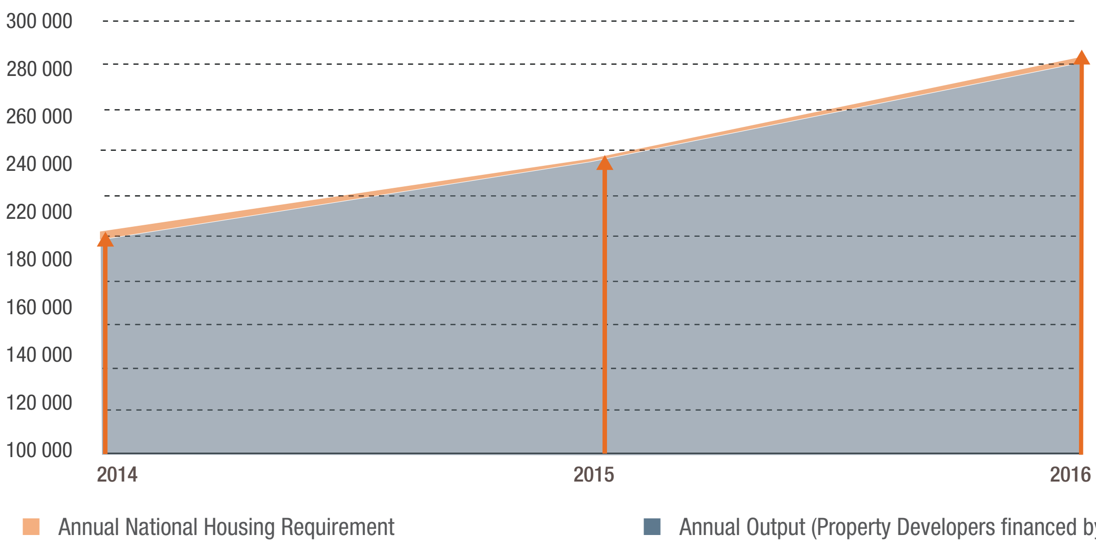
Bank	Equity Bank (25%)	Stanbic Bank (14%)	Bank M (12%)	Azania Bank (12%)	CRDB Bank PLC (12%)	CBA (6%)
HF Product	House purchase, construction, equity release and refinancing	House purchase, construction, equity release and refinancing purposes	House purchase, construction, equity release and refinancing of loans	House purchase, construction, equity release and refinancing	House purchase, construction, equity release and refinancing.	House purchase, construction, equity release and refinancing
Portfolio Size ('000) USD	47,750	26,740	22,920	22,920	22,920	11,460
NO. of HF Loans	73 (Mainly Property Developers)	159 (Mainly Property developers)	28 (Mainly Property developers)	629	285	175
Average Loan Size (USD)	$671,001	$167,729	$822,669	$54,200	$54,200	$54,200
Max Loan Size	Up to 80%	Up to 80%	Up to 80%	Up to 80%	Up to 90%	Up to 80%
Loan Term	10 yrs.	15yrs.	15yrs.	15yrs.	25yrs.	20yrs.
Pricing	14.75% -16%	16-19%	16-19%	19%	18%	16-19%
Implied Monthly Income	1.5 m (US 1,700)	1.5 m (US 1,700)	1.64 m (US 1,800)	2.03 m US 2250)	2.73 m US 3,000)	

Source: KIls with Banks- the Row on Implied Income is deliberately omitted because the majority of the loans are advanced to property developers

Property Developments (Housing Units)

From Fig. 22 below, the property developers were only able to reduce the annual housing requirement by about 20,000 units, in the period 2014 to 2016. This was a commendable output by regional standards. The provision of standard housing units is way far below the annual housing need of 200,000 units per annum, increasing at a rate of 20% per year. Figures presented here exclude units constructed by small private developers and for self-occupation. Even when these are added, the deficit remains large, particularly in the affordable housing segment.

Output vs. Annual Housing Requirement in Tanzania



Source: Consultant's mini-survey of Property Developers in Tanzania

Challenges impeding the deepening and broadening of the Investment Landscape

From section 7.2.1, it is clear that the majority of foreign inflows (about 90%) are lines of credit to commercial banks, seeking to extend their mortgage portfolios. This type of funding, has however, not helped relax the terms at which conventional housing products are priced, because, it is pegged on the performance of key macro-economic parameters, including the persistently volatile inflation and exchange rates. For this reason, foreign funds/inflows have and will continue to price high the terms at which mortgages are offered (interest rates as high as 20%).

And yet, the challenges facing the housing finance sector, cannot be entirely attributed to funding, however, to a host of other factors, including the capacity of banks to underwrite all types of income (particularly modest income earners), the design of affordable housing finance products and banks' ability to initiate sustainable working relations/partnerships with MFIs and SACCOs, as part of efforts to reach out to households they term as "un-bankable" or those excluded by the stringent terms at which they offer mortgage finance.

The country has a relatively high level of income inequality with about 70% of paid employees earning a mean annual income of less than TZS 13,600 000 (US$4,800) and about 10% earning annual income above TZS 32 million (US$12,000). The average mortgage size of TZS 133 million (US$60 586.93) is therefore on the high side indicating that most clients of mortgage institutions are high income earners (Only 3% of total HH population). The majority of the households (60%) finance their housing needs, using individual savings, micro credit loans and personal loans