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MASTER THESIS

Requirements for Real Estate Related Financing in Selected African Markets

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AfDB	African Development Bank
APP	Africa Progress Panel
AUC	The African Union Commission
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (Federal Ministry for Economic Cooperation and Development)
CAHF	Centre of Affordable Housing Finance in Africa
CCI	Centre for Community Initiatives
CCM	Chama Cha Mapinduzi
CEO	Chief Executive Officer
CPI	Corruption Perceptions Index
EAC	East African Community
ECA	Economic Commission for Africa
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
Global Findex	Global Financial Inclusion Database
HMFF	Housing Microfinance Fund
HOFINET	Housing Finance Information Network
ICESCR	International Covenant on Economic, Social and Cultural Rights
IMF	International Monetary Fund
MBS	Mortgage-backed Securities
MDGs	Millenium Development Goals
MEF	Microenterprise Finance
MFH	Microfinance for Housing
MFIs	Microfinance Institutions
MLHHSD	Ministry of Lands, Housing and Human Settlements Development Tanzania
MoFAIC	Ministry of Foreign Affairs and International Co-operation
NBFIs	Nonbank Financial Institutions

NHC	National Housing Corporation Tanzania
NGO	Non-governmental Organization
NSSP	National Sites and Services Project
SDI	Shack/Slum Dwellers International
SSA	Sub-Saharan Africa
TBA	Tanzania Building Agency
THB	Tanzania Housing Bank
TMRC	Tanzania Mortgage Refinance Company
TZS	Tanzanian Shilling
UK	United Kingdom
UAE	United Arab Emirates
UNDP	United Nations Development Programm
UNECA	United Nations Economic Commission for Africa
UNFPA	United Nations Population Fund
US	United States
USAID	United States Agency International Development
USD	US-Dollar

1 Introduction

1.1 Problem Outline and Research Objectives

In the past decades, many studies and publications about the importance of housing finance and the housing sector for the economic and social development of a country have been released. In 1993, the World Bank published “Housing: Enabling Markets to Work”, a report that emphasized the importance of housing finance for economic development. Moreover, it provided information and guidelines on establishing efficient and functioning housing markets.[1]

Housing finance has, especially in developed countries, now become a significant contributor to the economy and financial system, since residential mortgage markets represent between 50 and 100 percent of the gross domestic product (GDP) of their countries.[2]

Due to economic and financial globalization, housing finance has not only a major impact on the economic performance of an individual country, but also influences financial institutions and economies worldwide. How the failure of a housing finance system can affect the rest of the world became evident subsequent to the U.S. Subprime Mortgage Crisis of 2008, which led to a worldwide financial crisis and economic recession, the effects of which are still present on the economic situation today.[3]

However, housing finance is not just a segment of the financial market, which is influenced by the economic and financial environment of a country. In fact, housing finance is a very complex field, which brings together multi-sector issues that are affected by constantly changing local characteristics, such as a country´s culture, legal environment, economic situation, regulatory framework and political system. In order to establish an efficient housing finance sector, it is therefore important to consider the different factors that influence the real estate market. For instance, the demand for housing and the ability to purchase a home is not only influenced by economic determinants such as inflation, income and

[1] See THE WORLD BANK (1993), pp.1ff and CHIQUIER/LEA (2009), pp. xxixf.
[2] See CHIQUIER/LEA (2009), p. xxxi and BUCKLEY et al. (2009), pp.2ff.
[3] See CHIQUIER/LEA (2009), p. xxxvii.

employment, but also by demographics and governmental policies regarding the regulation and administration of land.[4]

There is also an important human dimension to housing which is especially important for emerging markets like Sub-Saharan Africa (SSA), where many people live below the poverty line, are unable to afford proper housing and therefore are forced to live in informal settlements and slums.[5] Wider access to housing finance and the provision of affordable housing has a major impact on economic growth, expansion of home ownership, urban development, construction and job creation and consequentially social and political stability.[6]

The purpose of this study is therefore to emphasize and analyze the importance of housing finance for the economic and social development in SSA in general and also to take a more detailed look at the situation of Tanzania´s real estate and housing finance market specifically. This includes covering the main requirements and prerequisites that are necessary to implement an effective housing finance system as well as the characteristics and challenges that need to be dealt with in order to establish real estate related financing.

Moreover, in the course of this analysis, it has to be explored which housing finance instruments are required to enable not only the middle and upper income households but also the low and informal income households to get access to finance and affordable housing in order to improve their living conditions.

1.2 Relevance of the Study

Although many studies have been conducted on the evolution of housing finance systems and their influence on the broader economy, most of them focus on developed economies with already established and effective real estate and financial markets. The situation of housing finance in emerging economies has, however, not been analyzed intensively. Even though there are some common features and prerequisites between developed and emerging housing finance markets,

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4 See CHIQUIER/LEA (2009), pp. xxxff and SCHULTE/SCHÄFERS (2008), pp.59ff.
5 See UN-HABITAT (2011c), p.5.
6 See CHIQUIER/LEA (2009), pp. xxxviiif.

the general conditions and the overall economic, social and political environment present greater challenges. Especially less favorable legal frameworks and financial and economic conditions as well as greater investment risks and limited fiscal space can result in a restricted government policy. Therefore, many emerging markets suffer from shortages of housing and cannot provide affordable housing finance.[7]

While many countries in SSA experienced economic growth and increasing political stability in the previous years, and the housing finance sector is also developing and growing, the overall situation of the housing finance markets in SSA is still challenging. Unlike other emerging countries like India and China, SSA is not one constitutional unity but consists of many sovereign countries with different policies and states of political and economic development. Therefore, the macroeconomic, social and political situations across the region are diverse and in some cases even differ significantly within countries. Moreover, SSA faces additional problems and challenges like extreme poverty and increasing urbanization, because even though Africa is still the most rural region in the world, it is also now the fastest urbanizing one.[8]

Meeting the needs of sufficient affordable housing at the same time as preventing the expansion of slums in the course of its rapid urbanization is one of the toughest struggles Africa has to face in the future.

Due to the diverse conditions it would not have been feasible to analyze the situation of the housing markets in all of SSA´s countries within this study, so the focus has therefore been set on Tanzania.

Despite the global economic recession in the past years, Tanzania´s economy as well as its construction sector experienced impressive growth rates. Because of its positive economic outlook and the stable political situation, Tanzania has received substantial multilateral and donor support for its development agenda, some of it especially targeted in order to develop the country´s housing finance sector.[9] Moreover, many regulatory and policy reforms have been implemented by the Tanzanian government to improve the legal and political environment for real estate related-

[7] See CHIQUIER/LEA (2009), pp.xxixf.
[8] See CAHF (2013), pp.4f.
[9] See CAHF (2013), pp.165 ff.

financing and to stimulate the development of the local housing finance sector.[10]

Despite its enormous development and growth potential, the Tanzanian housing market still faces various problems and challenges. As 87.9% of Tanzania´s population live below the international poverty line and earn less than US$ 60 per month,[11] the problem of affordability is one of the major concerns policy makers have to deal with.

The purpose of this study is therefore to analyze the situation of SSA´s and specifically Tanzania´s housing market thoroughly, identify the challenges the housing finance market is facing and try to find solutions and recommendations for the improvement of the housing finance sector in SSA and Tanzania respectively.

1.3 Research Framework and Structure

The following study deals with the requirements for real estate-related financing in selected African markets. The focus has thereby been set on the situation of housing finance in SSA with a special concentration on Tanzania. The Sub-Saharan region, which is also commonly called Black Africa in reference to its mostly black population, comprises 49 of Africa´s 54 states and is situated south of the Sahara and within the Sahel. The five states in the northern part of Africa are Arabic and therefore associated with the Arabic World. SSA is also classified in different subregions: West, East, Central and Southern Africa. The United Republic of Tanzania is located in East Africa.[12]

[10] See CAHF (2013), pp.165f.
[11] See CAHF (2013), p.167.
[12] See BMZ (2014).

Figure 1: Country Focus of the Study

Source: Exploring Africa (2014).

The research framework of this study is divided into the theoretical analysis of the condition of SSA´s and especially Tanzania´s housing finance market as well as the practical investigation of the current situation of Tanzanian´s housing finance sector.

In order to emphasize the importance of real estate related financing for Africa´s economic, social and urban development, chapter 2 initially deals with the main requirements, characteristics and challenges which influence SSA´s housing finance sector in general. In chapter 3, the influence and importance of housing finance for SSA´s development are portrayed in detail. Common housing finance instruments are then introduced in chapter 4. Furthermore, the state of the Tanzanian housing sector will be investigated extensiveley in chapter 5. The basis of analysis of these chapters is a literature research of the latest publications and surveys regarding these topics.

In addition to the findings of the theoratical literature analysis, the practical part of the research concerning the housing finance sector of Tanzania is based on interviews with local experts. The consulted interview partners are the CEO of the Tanzania Mortgage Refinance Company, Oscar Mgaya, Hermes Mutagwaba from the National Housing Corporation Tanzania and Dr. Moses Kusiluka, a staff member in the School of Real Estate Studies at the Ardhi University in Tanzania.

Since the author was unfortunately not able to visit Tanzania in the course of this study, it was not possible to conduct a personal field survey and interview the experts on site in Tanzania. Therefore, the interviews took place through a qualitative online research. In general, a qualitative online survey is a data collection for research purposes in which the participants are regionally separated from each other and therefore use the internet as the communication medium. [13] In this case, an interview with a questionnaire via email, which is an asynchronous form of the qualitative online research, was chosen. Although this form of communiction does not allow for direct interaction, it has the advantage of automatic data recording via text, which prevents comprehension problems that can be caused through language barriers. Another advantage is that the experts can take their time when answering questions and are therefore not under any time pressure. [14] The questionnaire consisted of open questions regarding the situation of Tanzania´s housing finance market with a special interest in the major constraints which the housing finance sector is facing. Based on the results of the interviews and the literature analysis, the major challenges and constraints on housing finance will be demonstrated in chapter 6 while recommendations for improvements in Tanzania´s housing sector will be outlined in the seventh chapter of this study. Chapter 8 gives a concluding summary of the findings of this study.

[13] See EHLERS (2005), p.279.
[14] See EHLERS (2005), pp.282ff.

2 Characteristics and Challenges of the Sub - Saharan African Real Estate Market and Housing Finance Sector

In order to illustrate the importance of housing and real estate related financing for SSA´s broader economy and social development, it is initially necessary to understand the main requirements and influencing factors of housing finance. The following chapter therefore portrays the current economic, financial, political, legal, social and demographic situation of SSA and offers an overview of the major characteristics and challenges SSA´s real estate markets and housing finance sectors are facing.

2.1 Macroeconomic Conditions

SSA accounts for 12% of the world´s total population yet generates only 2% of the world´s GDP.[15] Although this does not seem to cast a positive light on the developmental stage of SSA´s economy, the impression is actually deceptive.

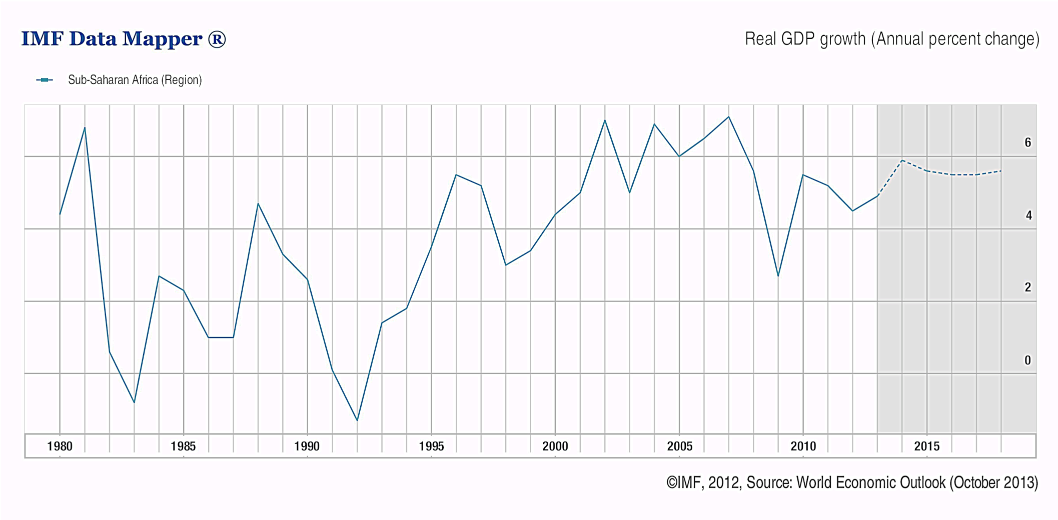
After years of stagnation in the 1980s and 1990s due to macroeconomic and political instability as well as poor living standards, SSA´s economy is now growing faster than any other region besides developing Asia. The turning point for SSA´s economic growth did not come until the mid-1990s.[16] Since 2000, SSA´s GDP per capita has grown by almost 5% per year compared to around 2.4% in the two previous decades, and its economic size has doubled in real terms and even almost quadrupled in nominal USD terms.[17]

Africa´s economy has been predominantly resilient against the global economic turbulences that occurred since 2008. Yet, in countries with strong linkages to global markets and in those where political and social tensions have increased, economic growth has slowed down.[18] In 2012, SSA´s GDP grew at 4.8% – again almost as high as the average 5%

[15] See DEUTSCHE BANK RESEARCH (2013), p.3.
[16] See DEUTSCHE BANK RESEARCH (2013), p.3 and IMF (2013), pp.1ff
[17] See DEUTSCHE BANK RESEARCH (2013), p.3.
[18] See OECD (2013), p.18.

growth rate of the last decade. If one excludes South Africa, which is the largest economy in the region and was, due to its strong links to global markets, seriously hit by the worldwide economic downturn, the GDP growth would actually have been 5.8%. Annual growth projections for the coming years are also positive. It is estimated that the GDP will grow close to 6% until 2015 – above 6% excluding South Africa.[19] The development of SSA´s GDP growth over the past decades can be seen in Table 1.

Table 1: GDP Growth in SSA



Source: World Economic Outlook (October 2013a).

In general, growth has become more spread across SSA´s countries since the early 1980s, when South Africa accounted for almost 40% of SSA´s GDP compared to currently 25%.[20] Over the last decade, some countries like Angola, Mozambique and Ethiopia reached average annual GDP growth rates of 8% and more, which is comparable to the performance of India and China. Estimations also predict that between 2013 and 2017, 13 out of the 25 fastest growing economies in the world will be in SSA, with South Sudan being the fastest growing with GDP growth rates of over 20%.[21]

However, the economic performance varied widely across sub-regions and country groups. Resource-rich countries generated overall higher

[19] See DEUTSCHE BANK RESEARCH (2013), p.3.
[20] See DEUTSCHE BANK RESEARCH (2013), p.3.
[21] See DEUTSCHE BANK RESEARCH (2013), pp.3ff.

average growth rates than nonresource-rich countries, similar to the pattern of the pre-crisis period. Within the resource-rich country group however, the gap in growth between oil and non-oil countries has narrowed, due to the post 2009 rise in commodity prices. Non-oil resource-rich countries like Sierra Leone (diamonds), Zambia (copper) and Tanzania (gold) are flourishing with growth rates even slightly above pre-crisis level. Within the nonresource-rich country group, there are some states that also achieved robust growth rates in the past decade, such as Mozambique, Ethiopia and Rwanda.[22] This can be traced back to an increase in economic diversification with improved performances in the agriculture, services and other sectors.[23]

Growth rates also differed across subregions in 2012, but remained robust in all of them. West Africa recorded with 6.5% the highest growth, followed by East Africa[24] (5.7%), Central Africa (4.6%) and Southern Africa (3.8%). West Africa benefits thereby especially from its wealth in commodities (oil and minerals). Although the political instability in Guinea-Bissau and Mali affected the subregion´s performance negatively and lowered both countries growth by more than 4.4%, it was balanced out by Sierra Leone´s growth of 26.5% due to the discovery of new oil deposits. It is therefore set to increase its growth by 7.2% in 2013.[25] In East Africa growth was stimulated by increasing economic diversity, rising agricultural output and exports, strong domestic demand, sound monetary policies and new natural resource discoveries.[26] The subregion Central Africa recorded stable growth rates at around 5% over the last years. Since the region relies strongly on output of primary commodities and extractive industries, job creation and inclusive growth have become a major challenge.[27] Southern Africa´s output was the lowest in the region and is expected to stay at around 3.8% in 2013. South Africa´s close integration into the global economy and occurring mining strikes are particular responsible for the slowdown in growth over the past years. Whereas most

[22] See THE WORLD BANK (2013b), pp.4ff and DEUTSCHE BANK RESEARCH (2013), pp.4ff.
[23] See UNECA (2013), p.27.
[24] Excluding Sudan and South Sudan
[25] See UNECA (2013), p.27 and DEUTSCHE BANK RESEARCH (2013), p.4.
[26] See UNECA (2013), p.28 and DEUTSCHE BANK RESEARCH (2013), p.4.
[27] See UNECA (2013), p.28 and DEUTSCHE BANK RESEARCH (2013), p.4.

of the countries in the region registered only moderate growth, Angola and Mozambique were able to improve their economic performance significantly. In Angola, an increase in oil production and investment in natural gas were accountable for the boost whereas Mozambique benefited from foreign direct investment (FDI).[28]

In general, GDP growth was supported by robust domestic demand which has grown faster than GDP due to increases in both investments in the productive capacity of the region´s economies and household consumption. Investment has been a key driver of growth across SSA as well, since both foreign and domestic as well as private and public investments have been increasing.[29] FDIs dominate the capital flows into the region, mainly because SSA is rich in natural resources, accounting for over 50% of total capital flows to SSA between 2010 and 2012.[30] Other forms of capital flows are still limited by less developed, though expanding, capital markets and a banking sector that is not yet highly integrated into the global financial market. So far, the main receiver of FDIs are South Africa and Nigeria, but now, increasing shares are going to booming countries like Angola, Ghana, Kenya, Mozambique, Tanzania, Uganda and Zambia. The targets of FDIs are besides extractive industries also infrastructure-related service subsectors such as construction, transportation, electricity, telecommunication, water as well as retail and banking, in order to respond to new consumer needs that come along with rising incomes. The highest FDI inflows in 2011 originated in France, the US and Malaysia, the largest stocks of investments are from France, the US, the UK, Malaysia, South Africa, China and India.[31]

Domestic investment has been supported by lower interest rates, since inflation has declined in recent years. Investment has predominantly flowed to the natural resource sector, although the nonresource sector has also attracted increased inflows, especially to the service sector. Rising

[28] See UNECA (2013), p.28 and DEUTSCHE BANK RESEARCH (2013), p.5.
[29] See THE WORLD BANK (2013b), pp.4ff.
[30] See THE WORLD BANK (2013b), p.5.
[31] See DEUTSCHE BANK RESEARCH (2013), p.7.

consumer incomes are raising activities in service subsectors such as telecommunication, finance, retail, real estate and transportation.[32]

Investments in infrastructure are thereby especially critical for SSA´s competitiveness and further growth because SSA´s business environment remains challenging in this regard. From the perspective of the private sector, the main impediments to SSA´s development are, besides corruption, the inadequate transportation and logistics infrastructure. Of particular concern therefore is the provision of power, transportation, water supply and sanitation as well as in telecommunications. The opportunity costs of power outages are immense in SSA. Moreover, the low road density and inadequate logistics performance lead to high costs of exporting goods. SSA´s performance is particularly poor in terms of rail and airport infrastructure as well as information and communication technologies. These infrastructural shortcomings might even lower firm-level productivity by 40% in some SSA countries and investment in infrastructure has the potential to stimulate growth rates in the region by 2 percentage points.[33]

Although SSA started from a low base, major achievements in terms of income per capita have been made in recent years. Before the financial crisis, real income per capita grew at 3.2% a year in SSA. At the moment, it is on average US$ 1,731 in SSA compared to US$ 9,147 in East Asia and US$ 10,733 in developing Europe and Central Asia. Resource-rich countries benefited especially from increases in commodity prices and increased their incomes considerably. If stable countries continue to perform well, most are expected to reach middle-income status by 2025. So far, only Botswana, Equatorial Guinea, Mauritius and Seychelles are classified as high-income countries in SSA.[34]

The average inflation rate remained high in Africa and even increased in 2012 to around 9%, from 8.5% in 2011 and 7% in 2010. For the years 2013 and 2014 it is expected to decline but remain above 7%.[35]

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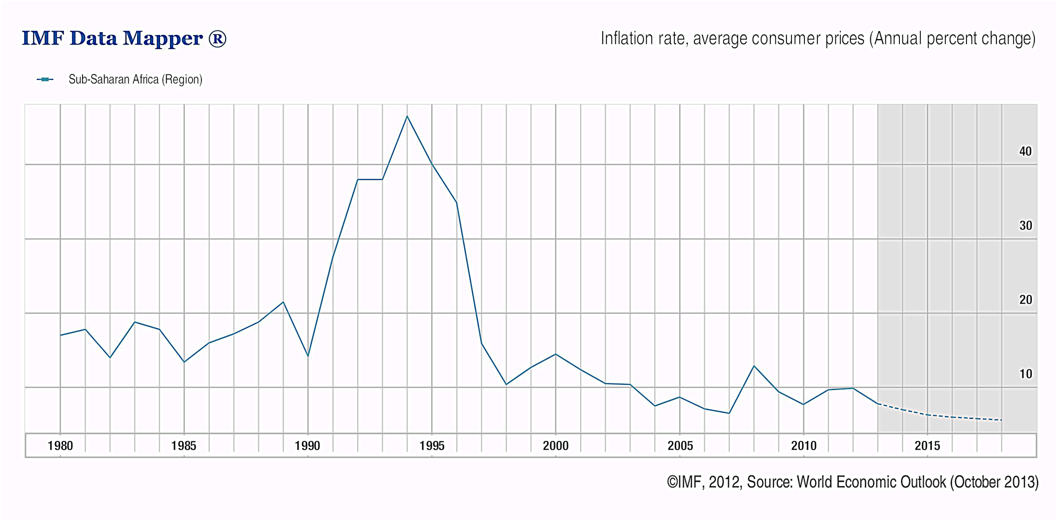
[32] See THE WORLD BANK (2013b), p.5.
[33] See DEUTSCHE BANK RESEARCH (2013), pp.7ff and p.25.
[34] See DEUTSCHE BANK RESEARCH (2013), p.9.
[35] See OECD (2013), p.34.

Table 2: Development of SSA´s Inflation Rate



Source: World Economic Outlook (October 2013b).

Key factors for the increase were mainly exchange rate devaluations, higher fuel prices and rising energy costs, higher food prices, unfavorable weather and poor harvests. The inflation varied thereby across the subregions. East Africa had the highest subregional rate with 14.2% due to the effects of the previous year´s severe drought on the performance of the agricultural sector as well as uncertain weather conditions. Within the subregion, Ethiopia had the highest inflation with 25%. In Central, West and Southern Africa, rates were mainly in single digits.[36]

2.2 Social and Politcal Conditions

The improvement and stabilization of SSA´s macroeconomic situation and policies can be traced back to Africa´s political liberalization that began with the end of the Cold War, when many autocratic regimes in Africa started to lose their influence and political power. Since the 1990´s, almost all countries - except Somalia and Eritrea - implemented democratic governments who are elected through competitive elections. However, many electoral politics are dominated by a single party rule and the region still lacks a level of social development that is necessary in order to sustain democratic forms of governance and stability.[37]

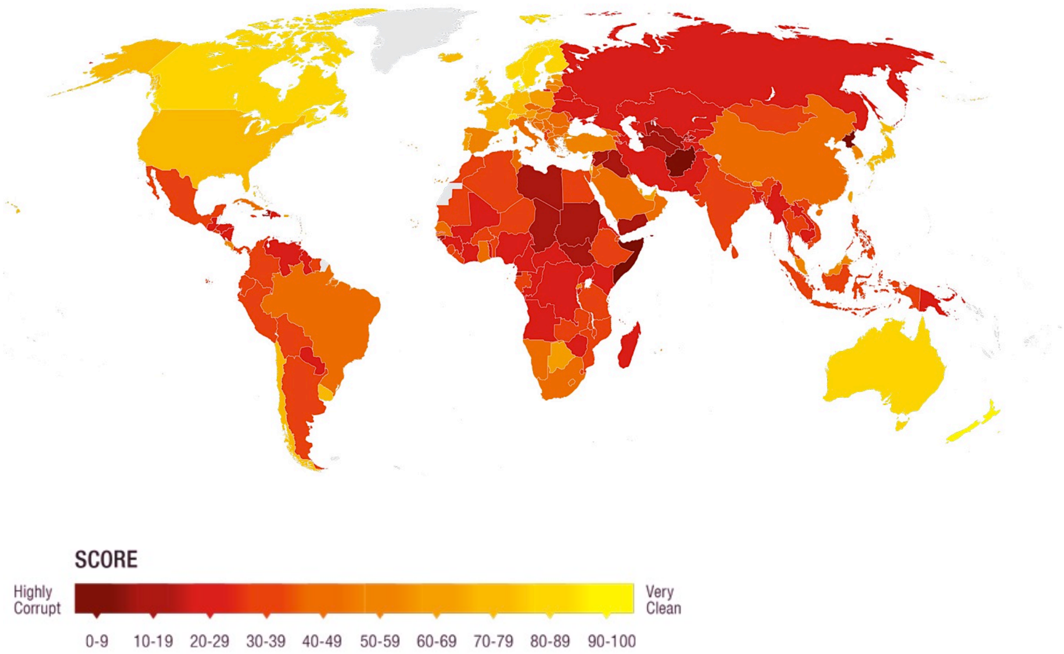
[36] See OECD (2013), p.34.and UNECA (2013), pp.30f.
[37] See DEUTSCHE BANK RESEARCH (2013), p.22 and OECD (2013), p.90.

After decades of unrest and civil wars since the de-colonization and post-independence period, many African countries are finally experiencing a decrease in civil violence and social unrest and an improvement in the implementation and maturing of their democratic development. Yet the democratic consolidation in SSA continues to be fragile, illustrated by the coup d`état in Mali and Guinea-Bissau in 2012 and several occasions of civil disturbance across SSA in recent years: the biggest increases in public protest were, amongst others, in Gabon, Senegal and South Africa. Whereas the protests in North Africa during the Arab Spring in 2012 focused primarily on political issues and the implementation of political reforms, over 50% of protests in SSA focused on economic concerns and mainly demanded increases in wages (e.g. in South Africa, Zimbabwe, Kenya, Zambia and Cote d´Ivoire) or complained about the increasing cost of living (e.g. Angola, Burkina Faso, Gabon, Nigeria, South Africa and Uganda).[38] In Kenya and Nigeria, increased terrorism has underpinned rising civil violence. Moreover, inter-ethnic tensions are also causing civil unrest. Cross-border conflicts affect many countries in SSA, for instance Mali, Nigeria, Somalia, Kenya, Sudan and South Sudan. So far, Africa still accounts for 23% of refugees and 42% of internally displaced people worldwide.[39]

Governance also still remains a problem although some progress has been made. According to Transparency International´s Corruption Perceptions Index (CPI)[40], 90% of the countries in SSA scored below 50, indicating a serious problem of corruption. Moreover, the bottom five countries in the index include three African countries, namely South Sudan, Sudan and Somalia.[41]

[38] See DEUTSCHE BANK RESEARCH (2013), p.22 and OECD (2013), pp.90ff.
[39] See OECD (2013), pp.91ff and APP (2012), p.64.
[40] The Corruption Perception Index is based on expert opinion and measures the perceived level of public sector corruption in 177 countries worldwide, scoring them from 0 (highly corrupt) to 100 (very clean).
[41] See TRANSPARENCY INTERNATIONAL (2013), pp.5ff.

Figure 2: Corruption Perceptions Index 2013



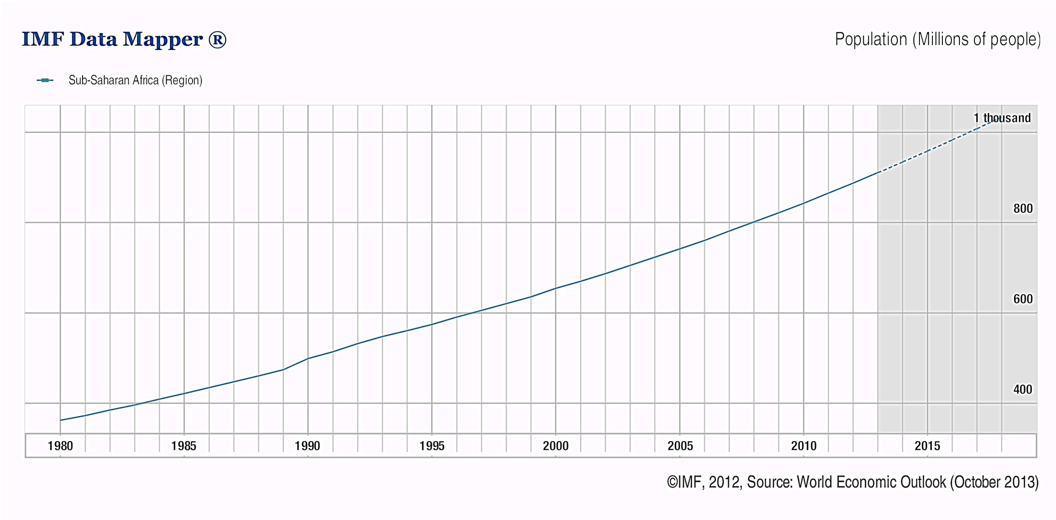
Source: Transparency International (2013), p.5.

The majority of countries who ranked at the bottom of the CPI like Sudan, South Sudan, Somalia and Zimbabwe, have emerged from prolonged crisis, which emphasizes the strong and harmful effect of conflict on political and administrative institutions.[42] In order to fight corruption and improve the business environment, some countries, for instance Kenya and Ghana, have already implemented monitoring tools and a central base of contract information to increase transparency in public spending.[43] If not managed well SSA´s demographic situation is also likely to provoke social conflicts in the future. Africa´s population is growing faster than in any other region of the world. The number of Sub-Saharan Africans grew from 186 million in 1950 to 859 million in 2010, accounting for an average annual growth rate of 2.6%. It is estimated to reach 1.2 billion in 2026 and 2 billion in 2050, thus by then, 1 in 5 people in the world will be African. This high population growth is mainly driven by high fertility rates, African women give birth to 5.2 children on average compared to a world average

[42] See OECD (2013), p.100.
[43] See DEUTSCHE BANK RESEARCH (2013), pp.24ff.

of 2.5.[44] The development of SSA´s rapid population growth over the past decades is displayed in the following table.

Table 3: Population Growth in SSA



Source: World Economic Outlook (October 2013c).

Therefore, Africa´s population is notably characterized by its youth. The median-aged African is just 18 years old, compared to 25 years in South Asia and 34 years in China.[45] In SSA, 571 million people (62%) are currently under the age of 25 and 386 million (42%) are under 14 years of age. In contrast, only 3% of the population is over 65 years old.[46] With child mortality rates declining over the last decade, working-age adults have become the fastest growing population segment in Africa. This could stimulate the economic growth if adequate education is provided and enough employment is available. Although the economic growth has created employment, it has not been on the scale which is required to absorb new market entrants and stimulate the social development which is required to reduce the high rates of poverty in SSA. The reason for this is that the recent economic growth is mainly driven by primary commodities and has therefore a low employment intensity, hence lacking the ability to create jobs. Thus the continent suffers from high unemployment rates, especially among the youth and female population. If African countries fail

[44] See DEUTSCHE BANK RESEARCH (2013), p.14.
[45] See APP (2012), p.32.
[46] See DEUTSCHE BANK RESEARCH (2013), p.14.

to implement a structural transformation of the economy and do not provide the necessary requirements in order to handle the demographic shift and create employment, the potential dividend of its youthful population could also turn out to become a major economic and social burden marked by increasing levels of youth unemployment, social dislocation and hunger.[47]

2.3 Sub-Saharan Africas Struggle with Poverty

At the Millennium Summit in 2000 at the United Nations Headquarters in New York, the attending world leaders committed their nations to a partnership to reduce extreme poverty. In order to achieve this goal, the Millennium Declaration was adopted which consists of eight time-bound goals[48] to be accomplished by 2015. These targets have become known as the Millennium Development Goals (MDGs) and acknowledge that poverty is a multi-dimensional phenomenon including low income, hunger, disease, inequality and environmental issues.[49]

Despite its positive political and economic development and growth, SSA´s progress in the fight against poverty has not been very successful during the past decade. Poverty is still unacceptably high and the pace of its reduction intolerably slow.[50] Apart from SSA, which started from the worst initial position, all regions in the developing world are expected to achieve the first MDG goal of halving extreme poverty by 2015. Although poverty declined in SSA from 52.3% of people living on less than $1.25 a day in 2005 to 48.5% in 2010 and is expected to decrease to 42.3% in 2015, there are still more people living in poverty today than before – an estimated 394.9 million in 2005 compared to 413.8 million in 2010.[51] This can primarily be explained by SSA´s rapid population growth – already

[47] See APP (2012), p.32 and UNECA (2013), p.30.
[48] The Millennium Development Goals are: (1) eradicate extreme poverty and hunger, (2) achieve universal primary education, (3) promote gender equality and empower women, (4) reduce child mortality, (5) improve maternal health, (6) combat HIV/AIDS, malaria and other diseases, (7) ensure environmental sustainability and (8) develop a global partnership for development.
[49] See UNITED NATIONS (2014).
[50] See THE WORLD BANK (2013b), p.14.
[51] See THE WORLD BANK (2013c), pp.5ff.

illustrated in the previous chapter – which is expected to remain strong, adding another half billion people to the region by 2030.[52]

Moreover, the impact of growth on poverty reduction is weakened by high inequality, the challenge of utilizing the gains from mineral exploitation for the benefit of the broader population and the persisting underperformance of the agricultural sector.[53]

Poverty in SSA is particularly spatial and predominantly present in rural areas. Rural poverty is mainly driven by the non-inclusive nature of economic growth and sectoral challenges like the poor condition of rural infrastructure, the failure to improve rural livelihoods, little job diversification, especially for the rural youth, and limited access to education as well as omnipresent child labor.[54]

Besides having the world´s widest urban-rural gaps, income equality – another effect of poverty – also remains extremely high in SSA, with Gini-coefficients[55] up to 45%.[56] Income inequality is thereby especially distinctive in resource-rich countries, although particularly oil-exporting countries achieved above 7% GDP growth on average over the past ten years, which actually should have been sufficient to make a significant benefit for the general welfare of the population. Yet, poverty and inequality have often remained high.[57] For instance in Angola, which holds extensive oil and gas resources, the poorest 10% of the population account for only about 0.6% of national income, whereas the richest 10% account for almost 45% of national income.[58] The reasons why resource-rich countries are unable to significantly reduce poverty despite their positive economic performance are mainly the limited revenue collection due to weak management of concessions, tax evasion and corruption as well as weak linkages between the resource sector and the rest of the

[52] See RAVALLION (2001), pp.15ff.
[53] See THE WORLD BANK (2013b), pp.14f and RAVALLION (2001), pp.15ff.
[54] See UNECA (2013), p.35.
[55] The Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Gini coefficient of 0% therefore implies perfect equality while one of 100% represents perfect inequality. See DEUTSCHE BANK RESEARCH p.12.
[56] See DEUTSCHE BANK RESEARCH (2013), p.12.
[57] See OECD (2013), p.22.
[58] See DEUTSCHE BANK RESEARCH (2013), pp.12ff.

economy.[59] In general, it can be stated that the economic growth has not been inclusive, since its benefits have just not trickled down to the majority of the population.[60]

SSA´s performance in fighting hunger, another by-product of poverty, also lags behind other developing regions. Currently about 30% of the population is undernourished compared to around 15% in the Asia-Pacific area. In general, the absolute number of people who are undernourished is declining in most regions, but growing in SSA. The number of undernourished children in particular has increased over the past two decades and is estimated to rise even further in the coming years.[61] According to the "Global Hidden Hunger Index" the undernourishment associated with missing micronutrients like vitamins and minerals is extremely severe in SSA. Out of the twenty countries that are most affected by multiple micronutrient deficiencies, all are in SSA except for India and Afghanistan. The hunger problem has therefore wide-ranging effects on the health and development of SSA´s population.[62]

Although SSA made some improvements in health indicators, the progress has been slow, since the region is starting from a low base. Currently one out of nine children in SSA dies before their fifth birthday; fertility rates are the highest in the world. Progress has been made in the field of maternal health, yet the situation is still of great concern. The maternal mortality rate improved over the past two decades, from 850 deaths per 100,000 live births in 1990 to 500 in 2010, compared to a decline from 400 to 210 for all other developing countries. The under-5 mortality rate also decreased, from 178 deaths per 1,000 live births in 1990 to 109 in 2011. Due to the HIV and AIDS pandemic, life expectancy stagnated at 49.5 years between 1990 and 2000, but increased by 5.5 years between 2000 and 2012.[63]

In the fight against malaria, major improvements have been made over the past decade, since malaria deaths declined by 33% from 2000 to 2010, much faster than in the rest of the world (25%). Africa´s progress in the fight against HIV/AIDS is also impressive. The number of new infections

[59] See DEUTSCHE BANK RESEARCH (2013), pp.13ff.
[60] See OECD (2013), p.22.
[61] See DEUTSCHE BANK RESEARCH (2013), p.11.
[62] See MUTHAYYA et al. (2013), p.4.
[63] See DEUTSCHE BANK RESEARCH (2013), p.12.

has dropped by 21%, from 2.6 million at the epidemic´s peak in 1997 down to 1.8 million newly infected people in 2011. Yet, despite the improvements, HIV/AIDS still remains a major burden for SSA´s development. Though SSA only accounts for 12% of the world´s population, it accounted for 68% of people living with HIV/AIDS and about 70% of new HIV infections in 2010.[64]

Overall, poverty still remains a major burden for SSA´s social and economic development, since it is likely to accomplish only four of the eight MDGs by 2015. So far, SSA is on track to achieve the goals regarding universal primary education, gender equality and the empowerment of women, the combat of HIV/AIDS, malaria and other diseases as well as the establishment of a global partnership for development. When it comes to eradicating extreme poverty and hunger, the reduction of child mortality, the improvement of maternal health and environmental sustainability, SSA still lags behind, though some progress has been made over the last decade.[65]

2.4 Urbanization Challenges

In addition to the macroeconomic and social issues that influence the affordability of housing finance, the urbanization process which is taking place in SSA has also a major impact on the accessibility of adequate and affordable housing and the provision of housing finance.

Until now, SSA is characterized by low population density and limited agglomeration and shows, compared to global standards, a modest level of urbanization. Although the number of large cities has been growing over the past 30 years, cities are in general small and there are only a few large metropolitan areas. So far, Africa remains the world´s least urbanized continent, with only one-third of its population living in cities – compared to a world average of one half.[66]

However, with an annual urban growth rate of almost 5% – the highest globally – SSA is urbanizing rapidly and will not remain rural any longer.[67]

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[64] See UNECA (2013), pp.36ff.
[65] See UNDP (2013), p.6.
[66] See UNICEF (2012), p.4.
[67] See UNICEF (2012), p.4.

The urban growth is thereby made up of natural population growth and migration, since people from rural areas move into the cities seeking employment and higher incomes in order to escape poverty. Nevertheless, rural-to-urban migration only contributes to one-quarter of this growth. However, whether due to natural increase or migration, urban growth is, in general, to a large extent accounted for by poor people. [68]

It is estimated that between 2000 and 2030, Africa´s urban population will increase from 294 million to 742 million people.[69] In the majority of African cities, urbanization rates are often equivalent to slum growth rates indicating that such urbanization patterns are therefore the main driver in the demand for, and the provision of, affordable land and housing in SSA.[70] Since Africa already hosts the world´s largest proportion of urban dwellers living in slums and most African states are failing to cope with the needs of their existing urban population, this immense urban expansion will be one of the biggest economic and social challenges SSA´s cities are facing in the future.[71]

The increasing demand for housing due to rapid rates of urbanization led to an increase in the prices for land and housing. When poor households come to the city, they are often unable to find an affordable place to live and are therefore forced to move into informal settlements. This often leads to an extensive sprawl of informal settlements in the peri-urban outskirts of African cities. These informal areas are unserved by municipal administrations and public transportation systems and hence lack the basic services and infrastructure that are necessary for healthy and dignified living conditions and economic development.[72]

The quality of the existing housing stock in informal settlements is often very low and the majority of the urban population lives in conditions that are considered to be slums. Slums are in general characterized by non-durable housing structures, lack of water, lack of sanitation, overcrowding and the lack of security of tenure. Moreover, the population of slums is often not formally employed and relies on income from labor in the

[68] See FOSTER/BRICEÑO-GARMENDIA (2010), p.127 and UNFPA (2007), p.3.
[69] See UNFPA (2007), p.8.
[70] See UN-HABITAT (2011d), p.4.
[71] See UN-HABITAT (2011a), p.6 and UNICEF (2012), p.4.
[72] See UNICEF (2012), pp.32f.

informal sector. However, informal earnings from poorly paid occupations are usually not enough to meet the household needs in a mainly cash-based urban economy. Since especially the provision of food is costly in urban areas, poor households often eat too little and less nutritious food, which leads to malnutrition and hunger and puts the health of the population at risk. Moreover, the unsanitary environment and the poor water quality and availability in low-income settlements can also cause health problems for the population.[73]

In general, it has been failed to match the rapid urban growth with increases in the provision of adequate housing for the population, hence there is an acute shortage in decent and affordable urban housing. Currently, only about 61% of the total households in SSA live in permanent dwellings and only around 48.6% of these meet the standards of planning regulations.[74] For the period from 2001 to 2011 it was estimated that over 60 million new dwellings needed to be constructed in order to accommodate the rapidly growing number of the new urban population in Africa.[75] Yet this figure does not even take the required amount into consideration for the replacement of inadequate and dilapidated housing units or the construction of additional units to relieve overcrowding. However, due to the informal character of most of SSA´s settlements and insufficient official population data and statistics, it is extremely difficult to estimate the exact extent of the housing deficit in SSA´s countries. But it is definitely certain that the dimension of the housing deficit, both quantitatively and qualitatively, is immense all over Africa.[76]

2.5 Land Rights, Access and Supply

Land is one of the fundamental requirements for the provision of housing, because without access to land there can be no housing. Moreover, land is also more than just an asset, since it is closely linked to a person´s individual and community identity, history and culture. For many poor

[73] See UNICEF (2012), pp.19ff and 39 and UN-HABITAT (2011d), p.19.
[74] See OKPALA (2012), p.182.
[75] See UN-HABITAT (2011d), p.18.
[76] See OKPALA (2012), p.182 and UN-HABITAT (2011d), p.18.

people, land is not only the basis for their shelter, but also their only form of social security, because secure land rights can provide financial security and act as a safety net in times of trouble. However, due to the increasing rates of urbanization in SSA, the demand and costs of urban land increased rapidly. The inability to access decent and secure land for even just the basic housing needs is therefore probably the most crucial problem the urban poor are facing in Africa and the main reason why there are such high rates of urban poverty and informal settlements in African cities.[77]

The provision and access to land is regulated by laws and policies which often can be traced back to the legacy of the colonial history of the country and the affiliated land administration systems. The European settlers gained control over the colonialized land and introduced a variety of European laws and established political, administrative and economic management systems. Those laws and regulations were implanted onto a diverse range of indigenous economic and cultural rules which led to dualistic land tenure and land administration regimes.[78] Hence many countries in SSA still have operational systems of traditional land allocation, alongside and sometimes even overlaying the regulations based on individual titling derived from European law.[79] Therefore, land administration systems differ notably across Africa and are affected by the co-existence of formal/legal, customary and extra-legal/informal systems. Moreover, the extent of state ownership and individual or communal ownership also varies across the continent. Especially in countries with a legacy of Marxism, like for instance Mozambique, all land is owned by the state. In countries with Islamic influences, such as the Sudan and coastal Kenya, where Sharia law is valid, the religious laws also affect the supply of urban land.[80]

The shortage of well-located, serviced land for housing, which is caused by the rapid urbanization of African cities, has led to an increase in prices for land. Therefore, housing developers need to look for low-priced land on

[77] See UN-HABITAT (2011b), pp.4ff and p.11.
[78] See AUC, ECA, AfDB (2010), p.6.
[79] See UN-HABITAT (2011d), p.36.
[80] See UN-HABITAT (2011b), p.9.

the urban periphery. However, servicing land on the outskirts of the city is expensive and therefore makes the developed housing unaffordable to lower and even middle-income households.[81]

Although legislative systems are important for the supply of urban land in Africa, the majority of the urban poor population has only access to land through extra-legal (informal) transactions that are based on traditional land distribution practices since they are unable to pay for land at market prices and formal supply is inadequate, inflexible and unaffordable. Due to the growing demand, informal land delivery systems have become increasingly commercialized in many cities.[82]

In addition to access to land, tenure security and property rights are key determinants which influence housing affordability since they are the basis for making mortgage finance available by commercial banks.[83] Security of tenure is an effective protection against eviction or arbitrary curtailment of land rights and can be achieved in many ways, for instance through clear, long-term rental contracts or formal recognition of customary land rights.[84]

In most cities in SSA, land is legally available through the dual systems of customary tenure and land titling under freehold or leasehold tenure, under customary and common law respectively.[85] Although customary tenure systems are important for maintaining social cohesion in a community, they are often not documented and therefore eventually unable to withstand the increasing economic pressure on land.[86] Tenure security, land rights and especially individual land titles are important since they enable households to use their land as collateral in order to get bank loans for housing or livelihood purposes and help lift themselves out of poverty. However, regularizing tenure by granting individual titles to informal settlements can be time-consuming, expensive and a subject of corruption.[87] In general, according to the “Doing Business”-database of the World Bank, registering a property in SSA currently takes 6 procedures

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[81] See UN-HABITAT (2011d), p.37.
[82] See UN-HABITAT (2011b), p.6 and UN-HABITAT (2011d), p.37.
[83] See TOMLINSON (2007), p.4.
[84] See UN-HABITAT (2011b), p.8 and UN-HABITAT (2011d), p.38.
[85] The key differences in the perception of land between customary and common law are displayed in Appendix 1.
[86] See UN-HABITAT (2011b), p.9 and p.13.
[87] See UN-HABITAT (2011b), p.12.

over 58.9 days and costs around 9% of the property value. Therefore, many households in informal settlements are not able to obtain title deeds for their property because they are just not able to afford them. Moreover, they fear that they may lose their land if they have to pledge their deeds to obtain bank loans, which they may have trouble paying back. In addition, individual land titling may even generate uncertainty in some cases by undermining pre-existing customary land rights.[88] Hence only a small percentage of land is held by a formal title in SSA. In the West African region, for instance, only around 3% is held by a formal title, mainly in the major cities. In Burundi, the number is estimated to be even smaller, at around 1%.[89]

As it can be seen, the demand for land is driven by urban growth, market forces and demographic pressures, but the supply is not able to keep up with the growing demand. Since governments fail to increase the supply of serviced land by regulating urban land markets, the informal land supply systems have highly developed and even exceed the formal land supply, since unlike the formal market they meet the needs of the poor. Overall it can be stated that the various systems of land ownership and administration are major constraints to the establishment of a functioning land and housing market.[90]

2.6 Access to Finance

Access to finance and well-functioning financial systems are an important factor, especially for poor people, in serving their financial needs in areas like health, housing, education and entrepreneurial activities, since without inclusive financial systems, the poor only can rely on their own limited savings in order to invest in their future.

Although significant improvements were implemented in recent decades and the financial sector was able to deepen and broaden its access to financial services, financial systems in Africa still remain under-developed

[88] See UN-HABITAT (2011b), p.12.
[89] See TOULMIN (2005), p.34.
[90] See TOMLINSON (2007), p.7.

and lag behind compared to other developing countries.[91] This becomes especially evident if one compares the ratio of private credit to GDP, which is an indicator of the financial depth of a country. In SSA, the ratio of private credit to GDP averaged 24% of GDP in 2010, whereas in all other developing economies the average was 77% and up to 172% in high income countries.[92] Moreover, the nonbank segments of Africa´s financial systems are even less developed than the banking sector since only less than half of all African countries have stock markets and only a few of these markets are actually liquid. In general, African stock markets belong to the most illiquid in the world as measured by the ratio of traded to listed stocks.[93] The limited size and iliquidity of stock markets are reflected by the bond side of capital markets as well, given that the primary bond markets are small and dominated by government and financial instituations. Furthermore, most of African bond markets are dominated by short-term securities. The small size and limited liquidity of Africa´s financial markets can be explained by the lack of market culture, high listings costs, the fear of losing family ownership as well as inefficient investor protection.[94]

However on the individual level access to finance is also still very limited among SSA´s population. According to the Global Financial Inclusion (Global Findex) database of the World Bank[95], only 24% of adults[96] in SSA have an account at a formal financial institution. There is a large variation in account ownership across the region, ranging from up to 80% in Mauritius, around 54% in South Africa to only 4% in the Democratic Republic of Congo.[97] In general, more men than women have an account at a formal financial institution in SSA´s countries, although the gender gap is not as high as in other regions.[98]

[91] See DEMIRGÜÇ-KUNT/KLAPPER (2012), pp.2ff.
[92] See DEMIRGÜÇ-KUNT/KLAPPER (2012), p.3.
[93] See BECK et al. (2011), pp.54ff.
[94] See BECK et al. (2011), p.57.
[95] The Global Financial Inclusion (Global Findex) Database measures how adults in 148 countries save, borrow, make payments and manage risk.
[96] The target population of the Global Financial Inclusion survey is the entire civilian, noninstitutionalized population age 15 and older.
[97] See GLOBAL FINANCIAL INCLUSION DATABASE (2014a).
[98] See DEMIRGÜÇ-KUNT/KLAPPER (2012), p.5.

The most frequently cited reason for not having an account at a formal financial institution in SSA is the lack of enough money to use one. This response was given by more than 80% of people without a formal account, for 30% of the interviewees in SSA it was the only reason for not having access to a formal account. Moreover, cost, distance, and documentation are also barriers to formal account ownership and are cited by more than 30% of non-account-holders in SSA. In Eastern and Southern Africa, fixed fees and high costs of opening and maintaining an account are the main obstacles whereas distance from a bank branch is a crucial barrier for adults who live in rural regions of SSA. The expansion of bank branches is often limited through the poor infrastructure and heavy branch regulation, therefore rural residents often have to travel great distances in order to reach a bank branch.[99]

Regarding account use and savings behavior, the following observations have been made: 14% of people aged 15 or older have reported that they saved at a formal financial institution in the past 12 months in SSA, moreover, 19% used a savings club or a person outside the family.[100] More than half of all respondents in Central Africa who saved money over the past year did not report having used a formal financial institution, informal savings club or a person outside the family. This implies that many people in Africa also set aside money using alternative methods that are not covered in the Global Findex database survey or are saving “under the mattress”.[101]

The rate of new loan issuance, especially in the informal sector, is relatively high in SSA. 40% of people aged 15 or older cite having borrowed money from family or friends in the past year, including 29% who report this as their only source of borrowing. Yet only 5% of adults report having accessed a loan from a formal financial institution in the past 12 months. The extent of origination of loans also varies also across the region, given that in Mauritius around 14% borrowed from a financial

[99] See DEMIRGÜÇ-KUNT/KLAPPER (2012), pp.7ff.
[100] See GLOBAL FINANCIAL INCLUSION DATABASE (2014a).
[101] See DEMIRGÜÇ-KUNT/KLAPPER (2012), p.11.

institution whereas in Mozambique only 6% and in Sudan only about 2% report having borrowed formally.[102]

A study about the access to finance of entreprises conducted by Asli Demirgüç-Kunt and Leora Klapper for the World Bank shows that firms in SSA have particularly limited access to external funding, since only 22% of entreprises have a loan or a line of credit compared to 43% in other developing countries excluding Africa. In Africa, 45% of firms report that limited access to finance is a major constraint to growth, whereas small firms are especially affected.[103]

Though the majority of SSA´s population does not have an account at a formal financial institution, an increasing number of people are using alternatives to the traditional banking system due to the rapid expansion of mobile phones. The recent growth of mobile money payments, which can be considered as a form of "branchless banking", has allowed a huge part of the population to execute financial transactions in a relatively cheap, secure and reliable way. In SSA, 16% of adults cited that they used a mobile phone in the past year in order to pay bills or send or receive money. The mobile money service is particularly important for people who otherwise do not have access to formal financial institutions, which becomes especially apparent in the case of Sudan, where 92% of adults who report having used mobile money in the past year do not have a formal banking account.[104]

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[102] See DEMIRGÜÇ-KUNT/KLAPPER (2012), pp.11f and GLOBAL FINANCIAL INCLUSION DATABASE (2014a).
[103] See DEMIRGÜÇ-KUNT/KLAPPER (2012), p.13.
[104] See DEMIRGÜÇ-KUNT/KLAPPER (2012), pp.9f.

3 The Importance of Real Estate and Housing Finance for Sub-Saharan Africa´s Economic and Social Development

As already discussed in the previous chapter SSA is facing many economic and social challenges. Moreover, it has to struggle with the consequences of its rapid urbanization and high poverty rates. In the following it will be illustrated how real estate and housing finance can help to overcome some of these problems. Furthermore, the benefits of housing finance for the economic and social development will be outlined.

3.1 Real Estate and Poverty Alleviation

The dimension of SSA´s struggle with poverty has already been described in chapter 2.3. The importance of real estate and housing finance in solving the problem of poverty becomes apparent due to the simple fact that housing is one of the primary requirements of all human beings in order to survive and live in dignity and is therefore a basic necessity of life. Housing provides not only shelter, but also a space for nurture, privacy, personal development and family life.[105] Moreover, your home is part of your identity and affects your self-respect.[106]

Owing to the essential position of housing for the individual, family and community development (and life), many states and international organizations acknowledged the right to housing in their national laws and international declarations.[107] One of them is the *International Covenant on Economic, Social and Cultural Rights* (ICESCR), which was established in 1966 and is so far ratified by 161 States.[108] The ratifying States are requested to recognize, respect, protect and fulfill the below mentioned housing rights by meeting minimum core obligations and ensuring nondiscrimination and direct legislative measures, appropriate policies,

[105] See KENNA (2012), p.703.
[106] See COLLIER/VENABLES (2013), p.1.
[107] See KENNA (2012), p.703.
[108] See UNITED NATIONS TREATY COLLECTION (2013).

and the maximum of available resources towards a progressive realization of these rights.[109]

The ICESCR acknowledges the right to housing in Article 11 in the following way:

"The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps to ensure the realization of this right, recognizing to this effect the essential importance of international co-operation based on free consent."[110]

Housing is the basis for the exercise of all economic, social and cultural rights and provides access to employment, training and education, better health and infrastructure. Moreover, adequate housing can make a contribution in reducing discrimination, crime or segregation. If follows that people who suffer from homelessness, poor housing and shelter poverty are more often exposed to violence, crime and persistent poverty.[111]

Even though housing is a basic human need and many states and governments have already recognized the necessity of providing adequate, suitable and affordable housing, there are still many people in SSA who live in very poor housing conditions or are even homeless and do not have access to adequate sanitary facilities and water. The lack of proper and adequate housing affects the contribution and productivity of household members to society, causes health risks and lowers the life expectancy of the affected population.[112]

Although poverty appears in general at an individual or household level, poverty becomes most apparent when poor people gather in an area where they live in poor conditions without access to infrastructure and water or sanitation services. SSA´s high urbanization rates even increase

[109] See KENNA (2012), p.705.
[110] ICESCR of 1966, Article 11 Paragraph 1, see OHCHR (2013).
[111] See KENNA (2012), pp.703 f.
[112] See UN-HABITAT (2010), p.1 and p.8.

this problem, since the poor who move into the cities in order to find employment often have no other option than to settle in an already poor neighborhood since they can not afford proper housing due to their lack of income. These areas are then often characterized by high unemployment, very low-income levels, poor housing conditions, malnutrition, ill health, illiteracy, lack of access to clean water and sanitation facilities as well as general insecurity, violence and crime.[113]

Adequate housing is therefore one of the most effective methods to alleviate poverty because shelter is usually the most expensive item for households. Moreover, it is also a prerequisite for better health and provides a great amount of saving when one is not sick.[114] It is also a source of income because housing can be used to generate income through home-based businesses or subletting, especially if located in a safe and attractive part of the city.[115]

A study about housing as a strategy for poverty reduction conducted in Ghana in 2010 also finds that investments in the housing environment can result in increased wellbeing, especially due to better access to basic social services like water and sanitation. This leads to improvements in the health, hygiene, livelihood, psychological wellbeing and social interaction of the affected household members and therefore boosts their productivity. Therefore, the development of subsidized housing and adequate and affordable accommodation is an essential element of poverty reduction after access to employment and social integration.[116]

Even though the positive effects of housing on poverty reduction are evident, it is still important to mention that the construction of houses in itself does not guarantee a decrease in poverty. Yet, it can help to overcome some challenges that households are facing such as improved access to water, sanitation, and social services as well as lower rents and affordable house prices. Furthermore, the constructed houses can help households to gain access to housing finance and hence serve as collateral for people who seek financial support in order to establish a

[113] See UN-HABITAT (2010), pp.8f.
[114] See BUNNARITH (2004), p.2.
[115] See UN-HABITAT (2010), p.17.
[116] See UN-HABITAT (2010), p.27.

business, which can make an important contribution to alleviate poverty in the long run.[117]

3.2 Real Estate and Economic and Financial Development

Housing has various linkages to the broader economy and influences therefore the economic and financial development of a country. This became especially obvious during the economic crisis between 2007 and 2009, when the collapse of residential construction had a major impact on GDP and unemployment in the United States, Spain and Ireland.[118]

Housing usually represents an important resource of saving for homeowners and is the largest single asset in their wealth portfolio. So the way the housing asset is financed apparently has a significant impact on the economy. Moreover, housing represents a large share of the consumption of households. For instance in the United States, residential investment accounts for about 4-8% of GDP and 20-30% of total investment[119] and the share going to housing can be even higher in rapidly growing countries. Thus, the ability to efficiently finance the housing asset will have a major effect on overall levels of investment and growth.[120]

Real estate related financing affects the economy, both directly by facilitating transactions and indirectly by improving the environments in which transaction take place. In general, housing is a long-lasting, durable asset and has three main interactions with macroeconomic activity, namely through the investment, consumption and banking channels. Through the use of debt, households are able to better match the timing of their housing expenditures with the flow of services they receive. Moreover, it enables households to purchase more housing at an earlier stage in the life cycle, as opposed to paying for it at once through savings accumulated over a long time. Furthermore, since housing is viewed as a secure collateral, mortgages are generally a low-cost way for households to finance borrowing for consumption, non-housing investment or the establishment of a business. Therefore, gaining access to housing finance

[117] See UN-HABITAT (2010), p.19.
[118] See MUELLBAUER (2012), p.302.
[119] See BUCKLEY et al. (2009), p.5.
[120] See BUCKLEY et al. (2009), p.5 and WHELAN (2012) pp.523f.

through mortgages can unlock “dead” capital which households can use in order to find a way out of poverty. Overall, housing finance can help to smooth consumption expenditures and support households in improving and adjusting their wealth.[121]

However, the economy is also influenced indirectly by housing finance. Some studies have suggested that consumption expenditures are more affected by housing wealth than by any other form of savings. In this case, increases in house prices can lead to stronger increases in consumer demand than do rising stock markets, as a consequence housing market trends may be more closely related to overall macroeconomic cycles. There are even greater opportunities for households to access this wealth as mortgage markets deepen.[122]

In addition to the impact on the economy, housing finance also has spillover effects on the financial system. Since housing is a durable asset and provides good collateral, it can be an important factor for the financial sector in establishing long-term bond markets. Moreover, it can also help stimulate the development of different financing techniques. For instance, new financial instruments like mortgage securities can contribute to the development of a sustainable pension and life insurance industry by stimulating savings. However, when housing loans default, this can also have major effects on bank balance sheets and consequently also on the ability of banks to extend credit to households and businesses.[123]

Economic growth is promoted by financial systems by channeling capital to its most productive use. Consequently, deeper financial systems can promote higher levels of growth. When financial systems grow and become more developed, housing finance becomes a more and more important element of the financial system. Accordingly, by maturing, housing finance tends to account for an increasing proportion of the financial system and provides a wider range of financial services. The maturation of financial systems can therefore stimulate the development of

[121] See WALLEY (2013), pp.115ff, BUCKLEY et al. (2009), p.6 and MUELLBAUER (2012), p.302.
[122] See BUCKLEY et al. (2009), p7.
[123] See BUCKLEY et al. (2009), pp.10f and MUELLBAUER (2012), p.302.

housing finance and on the other hand, this deeper financial system can boost higher rates of growth.[124]

3.3 Real Estate and its Influence on the Construction Industry

As already mentioned before, housing is not only a basic need, but also a major driver of economic and financial development. The creation of employment opportunities in the building materials and construction industry stimulates economic growth.[125]

Given that many of the created jobs in the construction sector are low skilled, they are therefore very accessible which is an important factor for many of SSA´s urban economies that suffer high rates of unemployment. Since the urbanization process in SSA is only halfway through and will still be in progress over the next decades, job creation will also be sustainable.[126] Moreover, the multiplier effect of housing construction generates employment through both horizontal and vertical supply chains. Thus, jobs are created in areas like raw material production, mining, cement production, timber and aggregates. In addition, it stimulates service industries that are connected to housing including mortgage lending, real estate agents and retailers of home goods such as furnishing.[127] It has been estimated that for every ten thousand US dollars spent on housing construction, more than seven jobs are generated in related industries and enterprises.[128] Several country studies about the multiplier effect of housing construction have been conducted, yet the focus has been mostly set on the effects of housing in developed countries. According to WALLEY (2013), the multiplier for the United States is between 1.34 and 1.62 which means that every dollar spent in housing will increase the overall GDP by $1.34 to $1.62. For Australia, the multiplier for output and employment in the construction industry is even higher and was estimated to be 2.866.[129]

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124 See BUCKLEY et al. (2009), pp.15ff.
125 See BLACK et al. (2000), p.3.
126 See WALLEY (2013), p.115.
127 See WALLEY (2013), pp.115ff.
128 See UN-HABITAT (2010), pp.16f.
129 See WALLEY (2013), p.117.

Therefore, the construction industry makes a significant contribution to the socio-economic development of a country. The degree of its effect can be measured in terms of its contribution to a country´s GDP, to its capital assets or gross fixed capital formation. It is estimated that in the global South, major construction activities account for around 80% of total capital assets.[130] Globally, between 3 and 15% of the GDP are annually invested in housing construction and around 5 -16% of the workforce are employed in the construction sector and real estate related services.[131] National development is also boosted by investments in shelter, although a large part of these investments can often not be identified since they are undertaken in illegal or informal settlements.[132]

Despite its importance, the construction and building materials industry is still very small relative to GDP in SSA. Moreover, the construction sector faces many challenges and has still many shortcomings in much of Africa. The affordability of housing construction in particular represents a major problem. In general, the construction costs are influenced by the building standards, the organization of the construction industry and the costs of inputs. The key inputs into housing are land, material inputs such as cement, skilled and unskilled labor, and finance.[133] In SSA, the major construction inputs – land and building materials – are extremely expensive and scarce. Building materials represent the biggest input into housing construction and can make up almost 80% of the total value of a simple house.[134] For instance, cement is surprisingly costly in Africa, typically around three times the world price. Moreover, much needed equipment and machinery is not easily available and skilled workforce often scarce and underdeveloped.[135]

The industrial organization of the housing industry is also not well developed. Homes for high-income households are often constructed by foreign construction companies, using capital-intensive techniques, foreign skilled construction workers and imported materials, hence their unit costs

[130] See HABITAT (1996), p.224.
[131] See OKPALA (2012), p.182.
[132] See HABITAT(1996), p.224
[133] See COLLIER/VENABLES (2013), pp.4ff.
[134] See MAJALE/ALBU (2001), p.8.
[135] See COLLIER/VENABLES (2013), p.6 and HABITAT (1996), p.225.

are far beyond the budgets of ordinary African households. Local developers who use building materials and employ local labor and built homes for the housing needs of ordinary people are, however, often lacking.[136] Another problem is that large amounts of capital are needed in order to pay for large-scale construction activities and the appropriated infrastructure. Since such projects are long-term and only profitable when considered over a long period of time, investors are reluctant to commit capital when other investment opportunities give a more rapid and secure pay-back.[137] Yet, without access to finance, developers can only build for people who are able to pay in cash, which limits the number of houses a developer can plan. Consequently, in most of SSA´s countries, it is still common that housing is mostly incrementally self-built and self-financed by the prospective owner, instead of being part of large-scale developments. Since in this way the economies of scale that a larger development could achieve cannot be realized, each individual house is more expensive. Developers are therefore stuck in a dilemma: they cannot gain finance to build until their buyers get access to housing finance, which is often not offered by banks because there are not any pre-built houses for borrowers to buy.[138]

[136] See COLLIER/VENABLES (2013), pp.6ff.
[137] See HABITAT (1996), p.225.
[138] See UN-HABITAT (2011c), p.10.

4 Housing Finance Instruments

Due to high rates of urbanization and poverty, a huge part of SSA population lacks access to adequate housing and lives in informal settlements and slums. As shown in the previous chapter, adequate housing is a key factor for economic and financial development and contributes to the health and productivity of households. Therefore, housing is probably the most import social, economic and financial asset most people will ever possess, yet also the most expensive one. Consequently, housing finance plays a crucial role in making adequate housing accessible and affordable in order to address the housing need in SSA. In general, credit is the main source of housing finance. Although this usually provided in the form of mortgage finance in developed economies, it has taken much more diverse forms in emerging markets, where especially housing microfinance is crucial in broadening the access to housing finance for the predominantly poor population. In the following, an overview of the situation of these housing finance instruments in SSA is provided.

4.1 Mortgage Finance

The most common form of housing finance is the mortgage loan. The mortgage loan is a debt instrument that has the basic characteristics of a loan – the loan amount, the loan term, the schedule of repayment and the contract interest rate –, but unlike a “normal” loan, the collateral that secures it is the property it helps purchasing.[139]

Mortgages are used by individuals and businesses that want to make a real estate purchase, which is usually a large and very expensive investment, but are not able to pay the entire value up front. Mortgage loans are therefore characterized by a long repayment period – normally 15 to 30 years – over which the borrower repays the loan and the incurring interests, until he finally owns the property. Since the lender, which is usually a bank, faces the default risk – the possibility that the borrower

[139] See MCDONALD/THORNTON (2008), p.32.

may fail to repay the loan – the property serves as collateral. Hence, the borrower has to pledge the property to the lender (bank) by signing over his legally recognized rights to the property when he takes the loan.[140] Therefore, the loan arrangement is only possible if the borrower has legal title to the property that can be transmitted to the lender (bank), since the borrower cannot offer the land as collateral if he does not legally own it. In order to give out such a large loan over a long period of time it is also important for the bank that the property is at least worth as much as the outstanding loan amount, since in the case of foreclosure, the bank must be able to clear the mortgage debt with the proceeds of the property sale. Thus, the enforcement of property rights and a judiciary system with supportive foreclosure legislations are crucial prerequisites for banks in order to participate in mortgage lending.[141]

Therefore, the five main requirements for a formal mortgage loan are:

1. The bank has enough money to grant the borrower a loan and is able to part with that money for as long as it takes the borrower to pay it back.
2. The borrower can afford the monthly repayment that the loan requires, which depends on the borrower´s income and expenditure. The monthly repayment is a factor of the principle loan amount, the interest rate and the term of the loan and thus highly influenced by macroeconomic policy.
3. It can be expected that the borrower will keep his job and has a stable income for the term of the loan.
4. The borrower is able to get legal title over the house which is worth the amount which the borrower has demanded.
5. The repossession of the property is straightforward and supported by foreclosure laws that are supported by the judiciary system.[142]

[140] See MCDONALD/THORNTON (2008), p.32, INVESTOPEDIA (2014) and UN-HABITAT (2011c), pp.10ff.
[141] See UN-HABITAT (2011c), pp.12ff.
[142] See UN-HABITAT (2011c), pp.11ff.

The fact that mortgage loans are long term and sizeable represents one of the main challenges in establishing a mortgage market and also explains why the basic financing issue in the housing finance market is securing longer-term funding sources. Lending money over a long period of time is risky for a lender because the chances are high that a borrower might default on the loan, or that the property value might decrease so much that it no longer matches the value of the loan outstanding or that inflation might make the loan worthless. The performance and effectiveness of a mortgage finance systems depends therefore on many influencing factors such as the macroeconomic environment and stability of the market, the legal-regulatory infrastructure, the availability of credit information and funds for lending, the ability of lenders to reduce information asymmetries as well as interest rates, liquidity and credit risks.[143]

Lenders can evaluate the credit risk by analyzing the credit history of a borrower – his previous record on bill payments and loan-repayments. Therefore, access to standardized and informative sources of credit information on potential borrowers is a crucial requirement for banks in order to determine the credit worthiness of mortgage loan applicants and pricing the loan corresponding to its risks. Therefore public credit registries or credit bureaus are necessary to provide lenders with the necessary information.[144]

It is especially macroeconomic stability or instability which affects the functioning of mortgage markets. From the household´s or borrower´s perspective, price stability improves affordability, because greater stability facilitates lower mortgages interest rates. Moreover, an instable macroeconomic environment creates substantial market risks for the borrower, the lender and the government. For instance, if inflation is volatile, lenders who offer fixed rate home loans would incur prohibitively high interest rate risks. Consequently, lenders are going to offer inflation-indexed mortgages in order to pass the interest rate risk to the borrower, who are in general even less likely able to manage such risk. Therefore, considerable interest rate risks will hamper mortgage lending since either

[143] See WARNOCK/WARNOCK (2012), p.394 and UN-HABITAT (2011c), p.16.
[144] See WARNOCK/WARNOCK (2012), p.397.

lenders become insolvent and/or borrowers are unable to repay their loans. A well-developed and stable financial system is therefore an essential requirement in order to establish an effective mortgage market.[145]

As already mentioned, mobilizing funding sources that are long-term in order to satisfy the demand for home loans is the basic financing problem in the mortgage market. Mortgage finance systems differ thereby mainly by their method of funding and mortgage product offerings. The simplest case is a deposit-based system, where commercial banks have the deposits its customers place with them at their disposal. These funds are considered low-cost, but since they can be withdrawn at any time, they are only short-term. With these short-term funds, lending fixed-rate mortgages is risky for banks, although more favorable for the borrowers. Instead, banks prefer to offer variable rate mortgages that reset periodically in order to protect themselves from interest rate risks. Other systems handle the financing problem by generating more long-term savings that must be accumulated over a fixed period of time. For instance, through a contract savings institution, a popular system in Austria, France and Germany, savers enter a contractual agreement to save for a specified period or up to a specific amount, in general at a below-market and fixed rate of interest. The fulfillment of the contractual obligations then entitles the saver to a below-market fixed interest rate loan. [146] Moreover, securitization is another way that lenders can raise capital and is widely used in the U.S., especially by mortgage bankers. In this case, a bank issues a series of loans and pools these together. The bank then sells the loan pool as well as the repayment obligations of all the borrowers with loans collected in that pool to an intermediary institution (a special purpose vehicle), which then invites investors to buy securities in the pool. This is called the "secondary mortgage market". The securities which investors buy are called "mortgage-baked securities" (MBS) and guarantee them a portion of the collections from the loan package.[147]

[145] See WARNOCK/WARNOCK (2012), p.394
[146] See WARNOCK/WARNOCK (2012), pp.394ff and UN-HABITAT (2011c), pp.18ff.
[147] See WARNOCK/WARNOCK (2012), pp.394ff and UN-HABITAT (2011c), pp.18ff.

Although SSA experienced economic stability and growth over the last decades, chapter 2 illustrated that it is still facing many economic and social challenges, which have impact on the development of the housing finance market. So far, with the exception of South Africa and Namibia, mortgage markets in SSA are very small and still in their infancy. The volume of mortgage lending to GDP accounts for only about 1-2% in most SSA countries (South Africa: 34%, Namibia: 20%) and loan-to-value ratios are quite low (around 50%).[148] Access to housing loans is limited since banks mainly grant mortgages to upper-middle and high-income households with formal and stable incomes. Due to the extreme poverty, the limited access to services and the low rate of financial inclusion in many SSA countries, only about 15% of the local population is actually eligible for mortgage finance.[149]

Although a high rate of urbanization is in general associated with a larger mortgage market, mortgage markets in SSA have not followed suit due to a number of reasons. Mortgage markets in SSA operate in very small financial and capital markets that lack economies of scale and scope, depth and liquidity. Moreover, these markets are characterized by the absence of debt management and issuance strategies. Especially the lack of long-term local currency funding has been a major set-back to the financing of long-term mortgages. The financial systems in SSA are dominated by banks whose main funding sources are short-term deposits which expose lenders to major interest and liquidity risks. Except for South Africa, mortgage debt securities have not been issued. In addition, banks often do not possess appropriate risk management methods and their staff lacks the necessary skills in housing finance.[150]

Moreover, the enabling environment for housing finance is weak. Most countries in SSA do not have the necessary regulatory and institutional framework in order to reinforce ownership rights and enforcement of contracts, particularly lacking efficient property registries, functioning credit

[148] See ROY (2011), p.185.
[149] See ROY (2012), p.473.
[150] See ROY (2012), p.473, MAKINA (2012), p.410 and ROY (2011), p.192.

bureaus and clear foreclosure rights. For these reasons, many bank managers in SSA still consider mortgage finance a high-risk business.[151]

4.2 Microfinance for Housing

Since the majority of SSA´s population cannot afford a market-rate mortgage for a completed house or does not have access to the banking sector and a formal financial institution, housing finance through mortgage lending is only suited for a small part of SSA´s population, the upper-middle and high-income households with steady and verifiable incomes. Therefore, the main funding source enabling financially excluded people, poor-income and low-income households to obtain housing besides their own savings are microfinance loans.[152]

Microfinance for housing (MFH) is a special form of microfinance, which aims to meet the housing needs of the poor. The clients of MFH predominantly live in informal and unregistered settlements and earn informal and irregular incomes, consequently lack access to formal financial institutions and can therefore only expand and improve their dwellings in incremental steps with the support of sequential small loans.[153]

MFH originally evolved from microenterprise finance (MEF), which provides low-income households with working capital for their business ventures. However, microfinance institutions (MFIs) have witnessed that their clients often use their micro-enterprise loans not only for entrepreneurial purposes, but also in order to improve their housing conditions. Moreover, a significant proportion of enterprises supported through microfinance loans are actually home-based enterprises, which specifically benefit from housing improvements since they can lead to an increase in productivity of the business. Therefore MFIs expanded their range of microloans and created microfinance products for housing that

[151] See MAKINA (2012), p.410 and ROY (2012), p.473.
[152] See DAPHNIS (2009), pp.395ff.
[153] See MERRILL (2012), p.274.

are particularly targeted at the special financial requirements and preferences of the poor.[154]

Besides the lack of access to the formal banking system, low-income households also often do not formally own the land on which their home is built. So, in contrast to mortgage lending, MFH loans are in general not collateralized by the property, which benefits the poor since they do not have to put their most important asset, which is also often their workplace, at risk to secure the loan and do not have to pay for additional fees in order to register the property. Moreover, MFH loans are smaller since they are disbursed based on the borrower´s capacity for repayment and have a shorter maturity (in general from six months to three years) than conventional mortgage loans, which suits the volatility of informal incomes. Because of the smaller loan size, MFH is primarily used for financing home improvements and incremental building rather than purchasing a fully constructed new home. Through the borrowing of a sequence of smaller amounts over a period of time, the clients of MFH are able to finance discrete upgrades to their homes such as an improved roof, a cement floor or connections to municipal services under conditions that enable them to cover all associated costs. The smaller size of the loan also helps to reduce the credit risk for the lender, since the borrower is motivated to repay the loan in order to obtain a further one for future construction activities in order to improve their housing condition.[155]

Due to the immense rate of urbanization and the poor financial situation of a huge part of SSA´s population, the potential demand for MFH is large and the number of institutions offering MFH has been growing fast in recent years. MFH is therefore already offered by a variety of institutions, including MFIs, banks, NBFIs, cooperatives, credit unions and NGOs. The providers of MFH can be distinguished between financial institutions offering microloans like MFIs, banks and NBFIs and institutions whose main intention is to improve the shelter situation of the poor, which can be financial as well as non-financial institutions. Moreover, microfinance institutions can also be differentiated by their form of funding, since there

[154] See DATTA (2012), pp.458ff.
[155] See DAPHNIS (2009), pp.396ff and MERRILL (2012), p.274.

are those that fund themselves on strictly commercial terms at market rates and those that are subsidized through combinations of grants, donor and government funds, providing more affordable interest rates.[156]

Although MFH is mainly targeted for households with modest and lower incomes, MFH loan products are also being adjusted to move up the income scale, since many middle and low-income households in emerging markets like SSA have been below the reach of both banks offering formal mortgage loans and builders providing modest, affordable housing. These households are the so-called missing middle – they are able to service a mortgage loan of modest size and medium duration, but do not have the opportunity to borrow due to their informal financial background or lack of land title. Moreover, it is also being recognized that slums are not only home of the poor but also to educated and rather well situated households with proper income.[157]

It is obvious that MFH plays an important role in the context of a comprehensive country-level housing finance system, since it enables poor and low-to-middle income earning households to improve their housing conditions through incremental construction. Yet MFH is not a substitute for affordable long-term mortgages, and will not therefore solve the crucial problem of financing large-scale, non-subsidized, new home construction, which remains still the major challenge in SSA. Nevertheless, the usefulness of MFH can be maximized through the development and modification of the offered loan products, especially when MFH is combined with secure title and infrastructure, which would contribute to the household´s willingness to save and borrow and so also improve the financial system.[158]

[156] See MERRILL (2012), pp.274f.
[157] See MERRILL (2012), pp.276f.
[158] See MERRILL (2012), pp.279f and DAPHNIS (2009), pp.414f.

5 Housing Finance in Tanzania

In order to illustrate the state of Tanzania´s housing finance sector, an overview of relevant background information on Tanzania will be given first. Then the situation of Tanzania´s real estate market and housing finance sector will be outlined more precisely by analysing the current situation of the real estate market as well as the political, legal and financial framework of housing in Tanzania. The study focuses thereby on the mainland of Tanzania, since the island group of Zanzibar maintains a semi-autonomous government and legislature and does not have a major impact on Tanzania´s economic performance and real estate market.

5.1 Background Information on Tanzania

In the following section, the main factors that impact housing finance will be displayed. Since the demand for housing is especially influenced by demographics, the political environment and the overall macroeconomic situation, the focus has been set on these determinants.

5.1.1 Country Overview and Demographic Situation

Tanzania and the island group of Zanzibar, which is situated about 30 kilometers from mainland Tanzania in the Indian Ocean, form together The United Republic of Tanzania.[159] The country is located in Eastern Africa and, alongside Kenya, Burundi, Uganda and Rwanda, is part of the East African Community (EAC).[160]

[159] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.1.
[160] See EAST AFRICAN COMMUNITY (2014).

Figure 3: Country Overview Tanzania

Source: United Nations (2006).

The United Republic of Tanzania covers an area of approximately 947,000 sq. km[161] and is bordered in the north by Kenya and Uganda, in the west by Rwanda, Burundi and the Democratic Republic of Congo and in the south by Zambia, Malawi and Mozambique. The Indian Ocean forms Tanzania´s eastern border.[162]

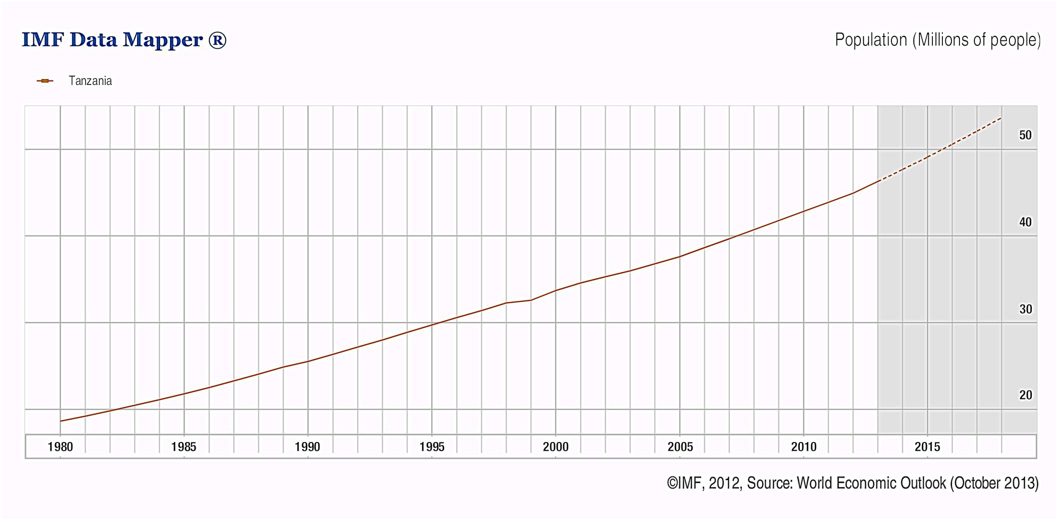
The official capital of Tanzania is Dodoma, yet the commercial capital and Tanzania´s center of economic life is the coastal city Dar es Salaam,

[161] See CENTRAL INTELLIGENCE AGENCY (2013).
[162] See MoFAIC (2014).

which is also the country´s largest city and most important port. Moreover, there are three international airports in the country – Dar es Salaam, Kilimanjaro and Zanzibar – and 21 main aerodromes. The country´s official currency is the Tanzanian Shilling (TZS).[163]

Tanzania´s population is currently about 45 million people[164], its present annual population growth rate is estimated to be 2.82% (2013 est).[165]

Table 4: Population Growth in Tanzania



Source: World Economic Outlook (October 2013d)

Although almost 75% of the population lives in rural areas, Tanzania is urbanizing very fast with an estimated annual urbanization rate of 4.77% (2010 – 2015 est.).[166]

Despite economic growth and increasing urbanization Tanzania is still a predominantly rural and extremely poor country. In fact, about 33% of its population live under the national poverty line and almost 88% of the country´s population live below the international poverty line of US$ 2.00 a day and earn less than US$ 60 per month.[167] Rural areas are especially affected by poverty and 80% of the country´s poor live in rural households. Despite the country´s macroeconomic improvement and efforts of the government and international donors to stimulate the agricultural sector,

[163] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.1 and KPMG (2012), p.7.
[164] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.23.
[165] See CENTRAL INTELLIGENCE AGENCY (2013).
[166] See CENTRAL INTELLIGENCE AGENCY (2013).
[167] See CAHF (2013), pp.166ff.

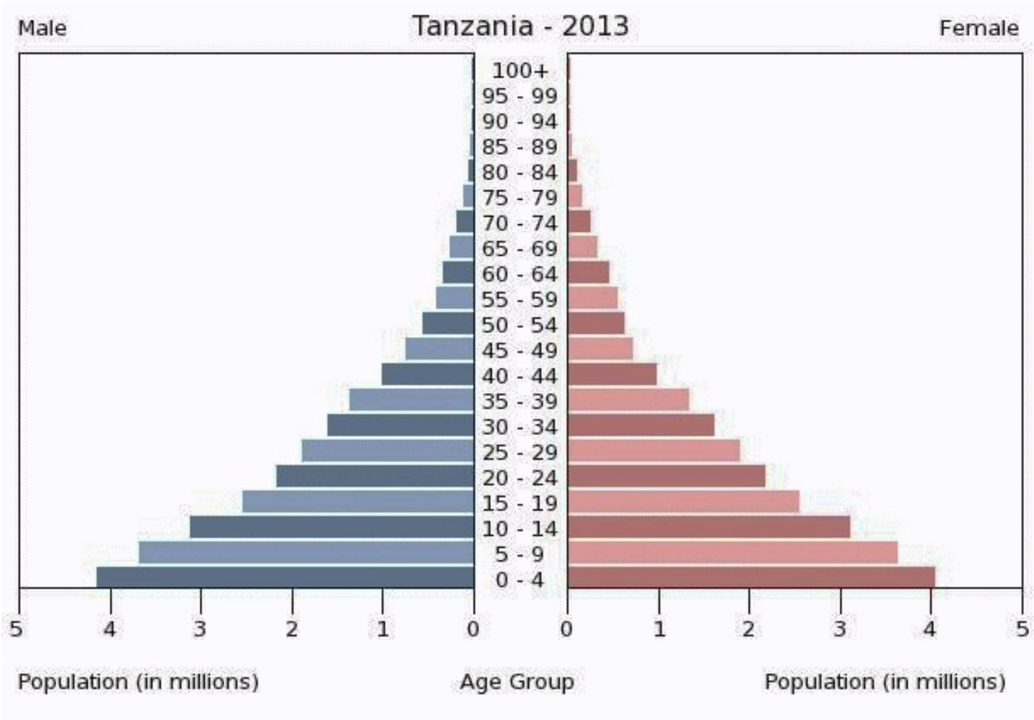
the level of poverty in rural areas has remained relatively constant since 2001 at around 37% to 40%.[168] Yet due to the rapid urbanization process, poverty in urban areas is also increasing. With over 6% per year, Tanzania has the third highest slum growth rate and the sixth largest slum population in Africa. Since over 6 million people currently live in slums, Tanzania´s urban population consists of more than two-thirds of slum-dwellers. Other UN reports even estimate that 92% of its urban population lives in slum conditions, which would be the third largest slum population in Africa.[169]

In consequence of the effects of extreme poverty and urbanization, a huge part of Tanzania´s population suffers from hunger and malnutrition, illiteracy and high child mortality and lacks clean water and proper sanitation, health and education services. Moreover, Tanzania is also extremely affected by malaria as well as HIV.[170]

According to the Population and Housing Census in 2012, the total life expectancy at birth is currently 56 years in Tanzania. Tanzania´s population is characterized by its youth since 44.1% of the population is younger than 15 years old. The country´s young population structure is displayed in a population pyramid in Table 5. Only 3.8% of the population is older than 65 years. The working age population (15 – 64 years old) accounts for 52.2% of Tanzania´s population.[171]

[168] See THE WORLD BANK (2013a).
[169] See HOMELESS INTERNATIONAL (2014).
[170] See KPMG (2012), p.3.
[171] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), pp.23 f.

Table 5: Population Pyramid of Tanzania



Source: Central Intelligence Agency (2013).

In general, access to education has improved but the quality of education has suffered and there is still an uneven spatial distribution of education and health expenditure. Although enrollment in schools has increased, the main problem in the education sector is poor outcomes at the primary and secondary levels. Currently, the primary school net attendance ratio is 84% and 86% of children aged 7-13 years attend school. However, the secondary net enrollment ratio is only at 15%. In general, enrollment in urban areas is lower than in urban areas, especially in the case of secondary education.[172]

Despite its poverty and poor social condition, Tanzania has been able to improve its rank in the United Nations Development Program´s (UNDP) Human Development Index since 1995, but will not be able to reach all seven Millennium Development Goals (MDGs) by 2015. Tanzania is expected to reach the MDGs related to fighting HIV/AIDS, reducing infant and under-five mortality but will fail to accomplish the goals in primary

[172] See THE WORLD BANK (2013a) and NATIONAL NUREAU OF STATISTICS TANZANIA (2013), p.21 and KPMG (2012), p.3.

school completion, maternal health, poverty eradication, malnutrition and environmental sustainability.[173]

Due to centuries of foreign invasion and colonial rule, Tanzania´s culture is affected by African, Arab, European and Indian influences. The country is one of the most socially diverse in Africa, consisting of more than 120 native African tribes and ethnic groups. Moreover, there are also minor sections of Asian, European and Arabic population. In general, each ethnic group has its own language, but the official language is Kiswahili, while English is also widely used in official communication, education and business. [174] Tanzania´s population is estimated to consist of approximately one-third each Muslims and Christians as well as followers of indigenous religious beliefs. Furthermore, there are also other religious groups like Buddhists, Hindus and Baha´is.[175]

5.1.2 Political Environment

Tanzania – a former German colony and British protectorate – became independent from colonial rule in 1961. In 1964, the United Republic of Tanzania was formed as a merger between the mainland territory Tanganyika and the island group of Zanzibar, which had become independent from colonial authority the year before. However, Zanzibar remains semi-autonomous with its own president and parliament.[176]

At the time of independency the country suffered from poverty, a primitive agricultural system and an underdeveloped economy. In order to boost the economy and accomplish social equity, Tanzania´s first president Julius Nyerere, a member of the Chama Cha Mapinduzi (CCM) party who ran the country under a one-party rule, introduced a system of African socialism called *Ujamaa.*[177] *Ujamaa* was launched in 1967 in the course of the Arusha Declaration, a socialist programme, which aimed at nationalizing key industries as well as all other parts of the economy including banking, trading and marketing sectors. Under *Ujamaa,* peasants were also forced by the government to resettle to so-called

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[173] See THE WORLD BANK (2013a).
[174] See KPMG (2012), p.2 and MoFAIC (2014).
[175] See KPMG (2012), p.2.
[176] See THE WORLD BANK (2013a) and BBC (2013) and DAGNE (2011), p.1.
[177] *Ujamaa* can roughly be translated as togetherness and familyhood.

villages of "familyhood".[178] Due to inefficiency, corruption, resistance from peasants and the rise in the price of imported petroleum, the *Ujamaa* policy failed and even brought the country to an economic collapse and at the edge of bankruptcy by the mid-1980s.[179]

In 1985, Julius Nyerere retired as president and was succeeded by Ali Hassan Mwinyi, who, with the help of the International Monetary Fund (IMF), implemented an economic recovery programme. The IMF-supported programme was intended to help generate a structural adjustment into a market economy and improve the overall situation of the economic sector in Tanzania. While the programme did help to integrate the parallel economy and stimulate economic development and growth, it failed to focus on the social development of the country.[180] In the 1990s, in the course of the liberalization process, more political and economic reforms followed, whereupon the introduction of the multi-party democracy in 1992 was one of the most significant. Since then, the number of parties participating in the political system has gradually grown to 19. However, despite the political pluralism, the CCM is still the ruling party and dominates government and parliament.[181]

Tanzania´s current president is Jakaya Kikwete, who was reelected in 2010 for his second and last term with 61% of the vote. Due to accusations by opposition members that the CCM would exploit its political supremacy and subdue political opponents, President Kikwete announced in 2010 that his government would install a commission to review the constitution, in order to strengthen the position of opposition parties. The constitutional review is supposed to be completed by 2015 in time for the general elections in October.[182]

Overall, Tanzania´s post- independence development can be divided into three phases. The first stage was marked by Socialism (*Ujamaa)* and economic decline. From 1986-1995, economic reforms initialized the liberalization process. The period since 1996 is characterized by macroeconomic stabilization and structural reforms. In spite of many post-

[178] See UN-HABITAT (2009), p.11 and BBC (2013).
[179] See DAGNE (2011), p.1 and UN-HABITAT (2009), p.11 and BBC (2013).
[180] See DAGNE (2011), p.1 and UN-HABITAT (2009), p.11.
[181] See THE WORLD BANK (2013a) and DAGNE (2011), p.1.
[182] See THE WORLD BANK (2013a) and DAGNE (2011), p.2.

independence ethnic riots and civil wars in its neighboring countries Rwanda, Burundi and the Democratic Republic of Congo, Tanzania maintained peaceful and stable. Although the country stands out through its ethnic diversity and extreme poverty, it has experienced national unity and political stability for nearly 40 years, which clearly benefited the rise of Tanzania´s economic development and macroeconomic stabilization in the last two decades.[183]

5.1.3 Economic Overview

In order to analyze the situation of the real estate and housing finance market in Tanzania, it is initially important to examine the economic setting, since the housing market is highly dependent of the country´s economic performance.

As already mentioned, the political and economic liberalization process that began in the 1980s led to impressive economic growth and macroeconomic stability from the mid-1990s on. However, Tanzania still remains one of the world´s poorest economies in terms of per capita income.[184] 53% of all adults in Tanzania earn less than TZS 50,000 (about 30 US$) a month and only 9% of urban adults are employed in the formal sector.[185] According to the Tanzania National Panel Survey 2010-2011, the urban unemployment rate is 8.2% in the country. In Dar es Salaam unemployment is even higher at around 13%.[186]

Despite the worldwide economic recession and turbulences in regional markets, Tanzania´s overall macroeconomic performance has remained stable and strong in the past years.[187] In 2012, Tanzania´s GDP grew at 6.4% and is expected to grow at 6.9% in 2013 and approximately 7% in 2014. Medium-term growth prospects are estimated to be about 7%, since investments in the natural gas resources that were found in 2012 are expected to stimulate the economy in the future.[188] The development of Tanzania´s GDP growth is displayed in the following table.

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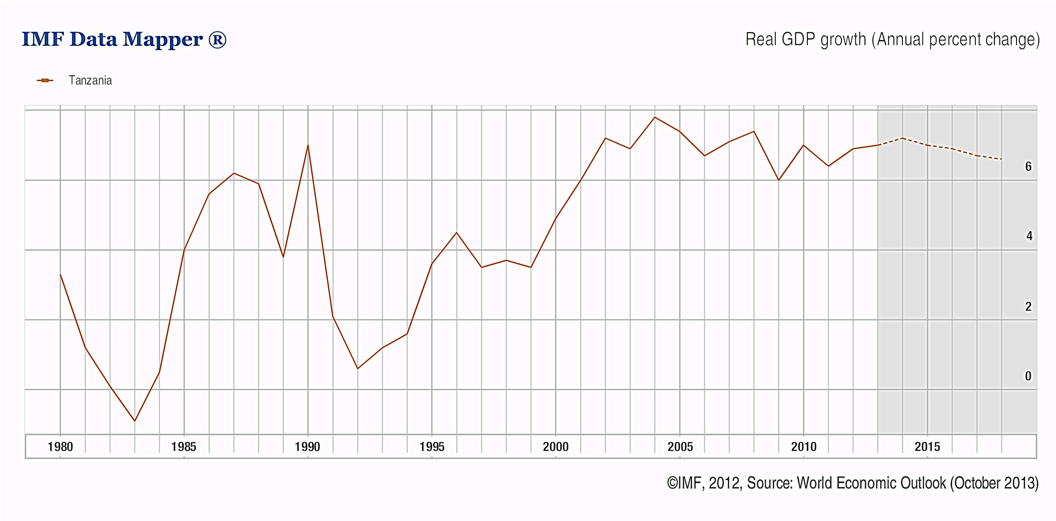
[183] See THE WORLD BANK (2013a) and DAGNE (2011), p.1ff.
[184] See CENTRAL INTELLIGENCE AGENCY (2013) and THE WORLD BANK (2013a).
[185] See CAHF (2013), p.166.
[186] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.18.
[187] See THE WORLD BANK (2013).
[188] See OECD (2013), pp.284ff and CAHF (2013), p.165.

Table 6: GDP Growth in Tanzania



Source: World Economic Outlook (October 2013e)

The main driver of Tanzania´s growth has been the service sector, especially telecommunications, transport and financial intermediation, as well as manufacturing, trade and construction. Moreover, the economy also benefited from strong export growth.[189]

The construction sector, which accounted for 8.8% of GDP in 2011, was stimulated by increases in residential and non-residential buildings, roads and bridges as well as land improvement activities and is therefore expected to grow by 9.8% in 2013 and 9.6% in 2014. Overall, finance, real estate and business services accounted for 11.4 % of GDP.[190]

Nevertheless, Tanzania´s economy still depends predominantly on the agricultural sector, which contributes more than one-quarter to the country´s GDP, provides 85% of exports and employs almost 80% of the workforce.[191] However, the topography and climatic conditions restrain the agricultural cultivation to only 4% of the land area, which makes the agricultural sector very vulnerable to climatic impacts like unsteady rainfalls and drought.[192] The country´s industry is also mostly focused on manufacturing agricultural products and light consumer goods. Industries producing agricultural inputs like fertilizer and farm tools and outputs like cigarettes and shelled cashews are especially crucial to the economy.

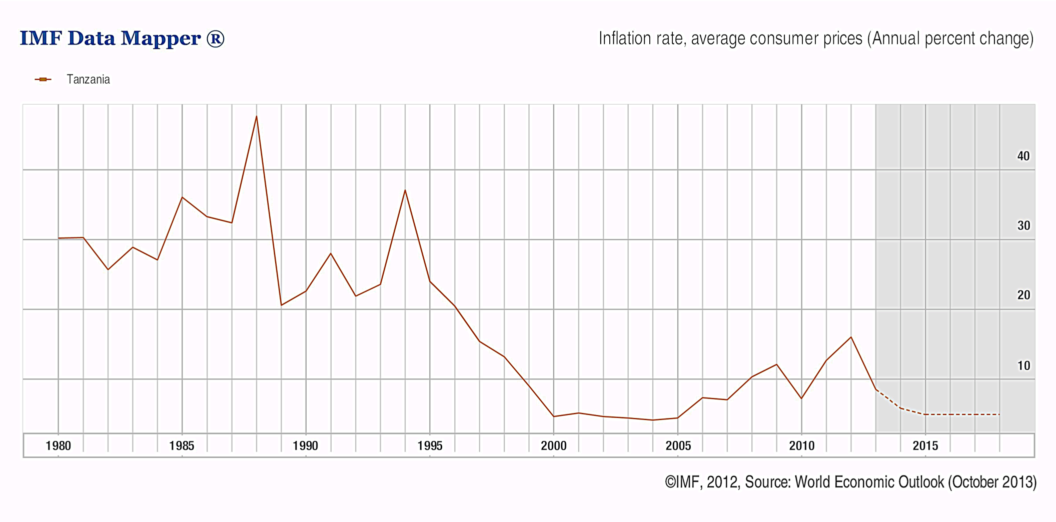
[189] See OECD (2013), p.284 and CAHF (2013), p.165.
[190] See CAHF (2013), p.165,
[191] See CENTRAL INTELLIGENCE AGENCY (2013).
[192] See UN-HABITAT (2009), p.11.

Coffee, cotton, cashew nuts, tea, tobacco and minerals are the principal export goods, whereas minerals like gold, diamonds and gemstones are the most important for economic growth, since they strongly attract foreign investment.[193] The main export partners are India, China, Japan, Germany and UAE.[194] Tanzania´s major import commodity is by far oil, followed by food and beverages, building and construction materials, machinery as well as transport equipment. The country´s main import partners are China, India, South Africa, Kenya and UAE.[195]

Private sector growth was stimulated by recent banking reforms and the government increased its budget spending on agriculture to 7%. Tanzania´s financial sector has grown lately and foreign-owned banks now make up for around 48% of the banking industry´s total assets. The increased competition among commercial banks led to significant improvements in the quality and efficiency of financial services, though interest rates still remain relatively high due to high fraud risks.[196] In the past, Tanzania has also suffered from extremely high inflation rates, even up to 16.1% in 2012. Since then, inflation has declined and is expected to reach single digits in 2013 with 8.4% and 6.9% in 2014 because of lower food prices and a prudent monetary policy. However, the inflation rate in Tanzania is still almost twice as high than in Uganda and Kenya. Moreover, food prices are also much higher than in comparable developing countries.[197]

[193] See UN-HABITAT (2009), p.11 and NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p. 44.
[194] See CENTRAL INTELLIGENCE AGENCY (2013).
[195] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.44.
[196] See CENTRAL INTELLIGENCE AGENCY (2013).
[197] See CAHF (2013), p.165 and THE WORLD BANK (2013a).

Table 7: Development of Tanzania´s Inflation Rate



Source: World Economic Outlook (October 2013f).

The poor condition of Tanzania´s transport and energy infrastructure hampers the country´s economic competitiveness and is therefore a major constraint on higher economic growth. The power sector is therefore a major problem and characterized by exceptionally low power consumption, limited electrification, and poor reliability of supply, even compared by the standards of other low-income countries in SSA. The economic costs of power failures are estimated to be 4% of GDP, which is among the highest in Africa. The water supply sector performs also only poorly and suffers from a declining coverage despite sector reforms and increased financing. Access to clean and safe water in Tanzania has fallen significantly in both urban and rural areas since 2000. Tanzania´s roads are in an inferior state and suffer from overuse, which requires investments in upgrading and maintenance of existing roads.[198] The total road network in Tanzania consists of 86,472 km of which only 7,092 km are paved and 79,380 km unpaved.[199] Moreover, a program is under-way to build about 3,000 km of new main roads. Tanzania has two railway systems which are also in bad condition, with frequent cancellations, minimal safety and slow journey times. The first system is a 2,600-km line linking Dar es Salaam with central and northern regions, the second line is 1,860 km long and links Dar es Salaam with the copper belt of Kapiri Mposhi in Zambia. Most

[198] See KPMG (2012), pp.7ff.and THE WORLD BANK (2010), pp.1ff.
[199] See CENTRAL INTELLIGENCE AGENCY (2013).

companies prefer to move their goods by road as a result of the unreliability and high transportation costs for goods via railway. The main port in Tanzania is the port in Dar es Salaam, which is accountable for 75% of its oversea trade but which is overburdened and inefficient. It has been estimated that Dar es Salaam loses 30% of its transit cargo business to other ports in the region, particularly Mombasa in Kenya. In order to reduce the infrastructural backlog, an annual infrastructure spending of US$ 2.9 billion over a decade is needed to catch up on infrastructure with the rest of the developing world.[200]

The overall stable economic performance and positive outlook as well as the stable political situation in the country have resulted in remarkable multilateral and donor support. In 2008 Tanzania received the world´s largest Millennium Challenge Compact grant worth $698 million and was even selected for a second grant in 2012.[201] In order to improve and restructure Tanzania´s aging economic infrastructure including rail and port infrastructure, The World Bank, the IMF and bilateral donors have also provided funds.[202]

5.2 The Situation of the Real Estate Market and Housing Finance Sector in Tanzania

The following chapters 5.2.1 to 5.2.5 portray the state of Tanzania´s real estate market by analyzing in detail the situation of the general framework of housing finance in the country.

5.2.1 Housing Demand and Supply in Tanzania

Tanzania´s housing finance sector and property market is still small and suffers from an immense shortage of good and affordable housing. Due to the lack of robust data on households incomes and house prices as well as inadequate behavioural information on housing consumption and investment, there are no reliable estimates of the actual urban housing demand. According to the Housing Finance Year Book of 2013, Tanzania

200 See KPMG (2012), p.7f.and THE WORLD BANK (2010),p.1f.
201 See CENTRAL INTELLIGENCE AGENCY (2013) and CAHF (2013), p.165.
202 See KPMG (2012), p.3.

currently has a housing backlog of three million units in addition to an estimated annual demand of 80,000 units.[203] However, these numbers represent not the real housing demand but the social need, since they do not take into account the ability of households to pay for housing. High rates of poverty and low levels of (formal) income also suggest that the effective demand for pre-built housing is quite limited in Tanzania, even with future increases in income taken into account. [204]

Since formal housing finance is very restricted and therefore not available for the majority of the Tanzania´s population, most households depend on their savings to pay for housing and build their homes incrementally whenever their resources allow it.[205] As a consequence, the quality of the existing housing stock is often very low. According to the Household Budget Survey in 2007, only 55% of households in Tanzania live in homes with modern roofs and just 35% of the houses have modern walls. Moreover, only 52% have access to protected water resources.[206] Access to services is also extremely low, only 16% of the population – in rural areas even only 3.6% – have actually access to electricity. In order to address the current infrastructure deficits (electricity, roads and ports), approximately US$2.4 billion per year over the next decade are necessary.[207]

As a result, housing is usually self-built rather than constructed by a formal supplier and formal housing delivery is still very limited. Formal housing construction is mostly undertaken by the public sector either through the National Housing Corporation (NHC)[208] or the Tanzania Building Agency (TBA), which develops housing for civil servants. Some pension funds have also invested directly in housing, but typically for formal workers. The market for private property development is almost completely absent since the existing projects are mainly aiming at luxury developments for expatriates and very wealthy Tanzanians.[209] However, self-building has

[203] See MUTERO (2012), p.2.
[204] See MUTERO (2010), pp.2-11 and CAHF (2013), p.167.
[205] See MUTERO (2010), p.11.
[206] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p.21.
[207] See CAHF (2013), p.167.
[208] The National Housing Corporation was originally established under an Act of Parliament in 1962 and reconstituted in the course of the public sector reform in 1990s.
[209] See URBANSOLUTIONS (2012), pp.10ff and MUTERO (2010), p.13.

also often been restricted by a shortgage of serviced land – only 5% of applications for plots received were assigned between 1990 and 2001. To deal with this problem the government implemented a 20,000 residential plot programme, which aims to parcel out, survey and allocate plots to individuals. It was first introduced in Dar es Salaam and later in Mwanza and several other municipal areas. However, the programme did not turn out as intended, since building on the plots has been slower than expected due to limited infrastructure (which will only be provided when there is a certain amount of people), lack of finance and the remoteness of the plots.[210]

The NHC also addressed the housing backlog by implementing a new strategic direction in 2010. In 2011 it was announced that the NHC would raise its budget from US$ 23 million to US$ 230 million in the financial year 2011/12 in order to dramatically increase the scale of delivery. The overall vision of the NHC´s new strategic plan is to become a leading real estate development and management firm in Tanzania within five years until 2015. In this process, the NHC wants to act as a master developer and plans to build a minimum of 15,000 housing units (including 5,000 affordable houses) for both sale (70%) and rental (30%). For this purpose, the NHC has already raised a US$ 14.5 million loan from Shelter Afrique. Moreover, the NHC is supporting its development plans by building a land bank for the acquision of property across Tanzania. Seven projects consisting of 737 housing units have been implemented during the 2011/12 financial year and are expected to be finished in 2014, and a further 38 residential projects consisting of 4,140 housing units are in various stages of development.[211]

In order to gain the support of banks for the housing delivery programme, the NHC has signed agreements with 12 banks. According to this agreement banks grant to finance homebuyers and in return, the NHC agrees to buy back properties from defaulting borrowers. The NHC also

[210] See CAHF (2013), p.167.
[211] See CAHF (2013), p.167 and NHC (2014).

signed an agreement with the insurance company MGen Tanzania to support this endeavour.[212]

The government has allowed the NHC to borrow TZS 300 billion (US$ 190.5 million) to finance its projects. Until now the NHC has signed agreements with eight local banks for loans amounting to TZS 165.4 billion, and has already made use of 68.5 billion to finance current projects.[213] Furthermore, the NHC has developed an investment policy for partnerships with private players.[214] By June 2013 the NHC had a total of 181 joint venture projects in progress, of which 54 were completed, 60 were under construction and 67 had been stalled.[215]

There are also some NGO´s that support poor people´s efforts to gain access to housing in Tanzania. For instance, the Centre for Community Initiatives (CCI) supports the Tanzania Federation of the Urban Poor, a network of slum dwellers who are members of the shack/slum dwellers international (SDI) network. The UK- based NGO “Homeless International” has assisted the work of CCI since 2007 by mobilising 7,000 federation members in six cities, piloting water supply rehabilitation and toilet construction in Dodoma and Arusha, a resettlement project of 500 families in Dar es Salaam and neogiating for upgrading in another.[216]

5.2.2 Policy Context and Institutional Framework of Housing

Since Tanzania did not inherit a housing policy from its colonial master, it had to develop its own after its independency. Since then many policies and pieces of legislation regarding the issues of housing and unplanned/informal settlements have been introduced. Starting with independence in 1961 and the introduction of the *ujamaa* policy, a “provider model” of housing delivery was initially implemented, which emphasized direct housing provision by the state. In this process, the government acknowledged the importance of adequate housing and

[212] See CAHF (2013), pp.167f.
[213] See CAHF (2013), p.168.
[214] The investment policy includes three models: (1) a „land as equity contribution“ model in ventures involving the development of prime commercial and residential rental properties; (2) a „land and finance“ contribution model in ventures involving the development of prime commercial and mixed-use rental properties; and (3) a „revenue sharing“ model in ventures involving the development of residential properties for sale.
[215] See CAHF (2013), p.168.
[216] See CAHF (2013), p.168.

initiated housing programs targeting low-income households. These programs were implemented during the 1960s and 1970s and featured in the national 5-year development plans and annual budgets.[217]

In 1962, the National Housing Corporation (NHC) was established in order to provide low-cost public housing for low and middle-income households on sites made available through the clearance and re-development of slums. The constructed houses were then offered for rent and sale. The NHC also provided housing loans to enable local authorities and individuals to build houses. Before 1973, when the Tanzania Housing Bank (THB) was established, funds for the NHC´s housing projects were mainly provided by foreign grants and government subventions. From 1973 on, the THB took over the NHC´s financing capacities. However, the cooperation could not cope with the new financing arrangement because it had to repay the loans with high interests that did not match with the low rents it obtained from its rental properties and high administrative cost. Moreover, due to the resettlement and displacement of households, the program generated social disruption and high compensation costs, which resulted in a housing policy change in the early 1970s.[218]

The policy shifted in 1972 and started to take the focus away from slum clearances to the upgrading and improvement of settlements combined with encouraging households to build their own houses with support from the National Sites and Services Project (NSSP), which was financed by the World Bank. Since these upgrading programs were expensive and carried out in a top-down approach, they led to a lack of community ownership and consequently a lack of maintenance. However, the program performed only poorly and so the World Bank ended its assistance in the early 1980s.[219]

In 1981, the government approved a National Housing Development Policy with the intention of creating a much-needed framework for the housing sector development. However, the policy was only partly implemented and did not have a major impact due to government´s

[217] See MUTERO (2010), p.9, URBANSOLUTIONS (2012), p.12, MERRILL/TOMLINSON (2006), p.17 and THE WORLD BANK (2002), p.9.

[218] See MERRILL/TOMLINSON (2006), p.17 and THE UNITED REPBULIC OF TANZANIA (2000), p.13.

[219] See MERRILL/TOMLINSON (2006), pp.17f.

budgetary constraints and a change in the country´s economic policy from a central to a market driven economy.[220] Because of the suspension of donor funding and economic difficulties during the 1980s and 1990s, the housing sector was excluded from the national plans and budgets. Moreover, the THB was closed down in 1995 primarily because of insolvency, weak management and administration. During its existence, the THB lent money to individuals and organizations for the construction of 36,000 housing units in both rural and urban areas.[221] As a result, no programs for servicing urban land for housing or maintaining the services and infrastructure provided in the upgrade projects were set up and the NHC and public employers implemented only a few housing projects during that time. Due to the lack of housing policies and programs, individuals were expected to meet their own housing needs; the government provided only un-serviced plots, although never on the scale required.[222]

During the last two decades, no housing programs were provided. Therefore, individual households were left to provide housing for themselves wherever land was available, which led to an increase of unplanned settlements. Houses were built without consideration of regulations or bureaucracy in the hope that overtime, these unplanned areas would eventually be upgraded and the land rights registered.[223]

Currently, the Ministry of Lands, Housing and Human Settlements Development (MLHHSD) is in charge of Tanzania´s housing activities and has been mandated to administer land and human settlement in the country on behalf of the President of Tanzania who serves as the trustee of all land. The Ministry consists of four major departments namely Land Administration, Survey and Mapping, Physical Planning and Housing. Moreover, the Ministry is involved in the National Housing Building

[220] See URBANSOLUTIONS (2012), p.12 and THE UNITED REPBULIC OF TANZANIA (2000), p.16.

[221] See THE UNITED REPBULIC OF TANZANIA (2000), p.16. and MERRILL/TOMLINSON (2006), p.18.

[222] See MERRILL/TOMLINSON (2006), p.18.

[223] See MERRILL/TOMLINSON (2006), p.18.

Research Agency, the National Land Use Planning Commission and the NHC.[224]

The MLHHSD directs the establishment of land policy and planning and is accountable for administering reserved land and general land, including the allocation of granted occupancy rights and management of the country´s land resources. Most of the Ministry´s responsibilities are executed by a Commissioner of Land.[225]

Rapid urbanization, high levels of poverty and the lack of a sustainable housing policy led to an increase in mostly self-built, inadequate and informal settlements over the past decades. In order to face these problems and improve the housing situation, the MLHHSD implemented the National Human Settlements Development Policy in 2000. The overall goals of this policy are to promote the development of human settlements that are sustainable and to facilitate the provision of adequate and affordable shelter to all income groups in Tanzania. The main objectives are thereby to make serviced land available for shelter and human settlements development in general for all sections of the community through the provision of infrastructure and social services. So far, this policy remains the principal legislation of governing housing in Tanzania.[226]

5.2.3 Legal Framework on Land Rights

After the adoption of the African socialism ideology following Tanzania´s independence from Great Britain in 1961, all land was considered public land with the president serving as a trustee for the people, which largely eliminated the chieftain and individual rights held under customary law. During the course of the abolishment of all previous customary land rights, the district and village governance systems (village councils) were installed in order to administer both land allocation and management. In 1973, the so-called operation *Vijiji* went into effect with the objective of bringing together rural and scattered residents into communal villages

[224] See URBANSOLUTIONS (2012), p.12.
[225] See USAID (2010), p.12.
[226] See THE UNITED REPBULIC OF TANZANIA (2000), p.21. and URBANSOLUTIONS (2012), p.23.

serving between 2,000 and 4,000 people. Village councils were in authority of land allocation and management. This policy affected almost 75% of Tanzania´s population. Its goal was to induce better efficiency in the delivery of public services by creating large-scale collective farms that would assure improved standards of living for the rural communities and the nation at large.[227]

In the mid 1980s, when the African socialism policy of *ujamaa* was finally recognized as a failure and led to a change in government, the villagization project was also abandoned. Therefore many people opted to settle back in their original homeland, only to find that others had settled there in the meantime, which created confusion over land tenure issues with a rising number of land disputes all over the country.[228]

In order to deal with these issues, the government formed a Land Commission to review existing laws and provide a report with recommendations for a new legal framework on land. Moreover, customary law and individual rights were once again reinforced.[229]

In 1995 the government then implemented a “New National Land Policy” which aimed at correcting the shortfalls relating to land tenure, land management and administration. This policy set out the fundamental principles guiding land rights and management and intended to improve access to land by all sections of the society. Moreover, the Land Policy aimed to assure that existing rights in land specifically customary rights of smallholder (e.g. peasants and herdsmen) were recognized, clarified and secured in law and to promote equity in land holding and increase efficiency in land administration in the country.[230]

As a land dispensation system, the policy made some changes to the land administration and servicing norms that intended to address the problems of the urban poor who live in unplanned and poorly serviced settlements. For instance, these changes included the ability to obtain a Right of Occupancy for a term of up to 99 years, entitling women to the right to purchase land and recognizing that land has value as opposed to the

[227] See USAID (2010), p.6. and URBANSOLUTIONS (2012), p.14.
[228] See URBANSOLUTIONS (2012), p.14.
[229] See URBANSOLUTIONS (2012), p.14.
[230] See THE UNITED REPBULIC OF TANZANIA (2000), pp.17ff. and USAID (2010), p.7.

historical view in the region that it does not. Moreover, the “New National Land Policy” of 1995 acknowledged that over 50% of the urban population in Tanzania lived in poor conditions in unplanned settlements and affirmed that these settlements contain a huge stock of housing that should be preserved. Those areas should therefore not be cleared but rather upgraded and provided with sanitation facilities and other basic services. Moreover, it should be ensured that the residents of unplanned settlements have their rights recorded and maintained by the relevant land allocation authority.[231]

Tanzania´s Land Act was adopted from the Land Policy and implemented in 1999. It classified land as either reserved land, village land, which falls under the Village Land Act 1999, or general land[232] and set the legal framework for implementing the objectives of the National Land Policy for granted Right of Occupancy. The Land Act thereby recognizes the validity of customary rights of occupancy without the obligation to issue and register a formal certificate. However, certificates are required in order to mortgage the land right to secure a loan.[233]

Due to the different governmental approaches on the regulation of land in Tanzania´s past, the land administration system is – like in the majority of SSA´s countries – now affected by the co-existence of formal/legal, customary and extra-legal/informal systems of administration. According to current household data 69.5% of land in mainland Tanzania is owned under customary law, 15.8% of land is owned by buying and only 5.5% of land is owned under official land titles.[234]

In general, the registration process for a property in order to get official land titles requires 8 steps[235], takes 68 days (compared to an average of 58.9 in SSA) and costs 4.5% of the property value (compared to an average of 9% in SSA) in Tanzania.[236]

[231] See THE WORLD BANK (2002), p.12.
[232] Reserved land includes land protected by law or designated land such as national parks or land for public utilities such as highways; village land includes registered village land, land demarcated and agreed to as village land by relevant village councils and land that villages have been occupying and using as village land for 12 or more years under customary law; all other land that is not reserved land or village land is classified as general land.
[233] See URBANSOLUTIONS (2012), pp.15ff.
[234] See NATIONAL BUREAU OF STATISTICS TANZANIA (2013), p. 46.
[235] See Appendix 2 for registration steps.
[236] See THE WORLD BANK (2014).

5.2.4 Banking and Financial Sector with Emphasis on Housing Finance

Due to the economic liberalization process, Tanzania´s financial sector has developed and grown over the past two decades. Meanwhile there are 45 commercial banks and many other financial institutions in the country. The growth of the banking sector led to an expansion of credit to the private sector, which accounted for 17% of GDP in 2012. However, access to credit is still low in contrast to comparable countries across the continent and worldwide. Moreover, the gross domestic savings rate, which was estimated at 20% of the country´s GDP in 2010, is also a sign of a still shallow financial system.[237]

According to The World Bank´s Global Financial Inclusion (Global Findex) Database, only 17.25% of Tanzanians over the age of 15 have an account with a formal financial institution. There is also a huge difference in the level of financial inclusion between the rural and urban population, since 40.6% of urban and just 14.2% of rural Tanzanians have an account with a formal financial institution.[238] Although 43.6% of Tanzanians over the age of 25 have formed savings in the past years, this seems to have happened mainly on an informal basis, since only 13.3% have saved at a financial institution and 9.7% through a savings club. Moreover it becomes clear that the use of credit is also not very common. Just 8.1% of Tanzanians recount that they had a loan from a financial institution in the past year and only a few, namely 6.7% of the top 60% of income earners and 1% of the bottom 40% income earners, posses an outstanding loan in order to purchase a home. Loans for home construction are slightly more widespread, yet also still at a very low level with 10.8% of the top 60% income earners and 3.1% of the bottom 40% income earners having home construction loans currently outstanding.[239]

Mortgage lending was first introduced in 1972 with the establishment of the state-owned Tanzania Housing Bank (THB) which collapsed in 1995.

[237] See CAHF (2013), p.165.
[238] See GLOBAL FINANCIAL INCLUSION DATABASE (2014b).
[239] See CAHF (2013), p.165. and GLOBAL FINANCIAL INCLUSION DATABASE (2014b)

During its existence the bank provided about 14,000 mortgages, which was the total extent of Tanzania´s mortgage industry at that time. After the THB was wound up in 1995 Tanzania has not had a formal housing finance institution.[240]

Financial reforms and land policies, which were implemented in the 1990s, have since laid the basis for the development of a viable housing finance system in the country. A crucial policy was thereby the implementation of the Mortgage Financing (Special Provisions) Act of 2008, since it improved the legal requirements which are necessary for housing finance. The Act amended certain written laws in order to provide further provision of mortgage financing by enabling access to long-term loans from the banks to build houses and sell to buyers. Moreover, the Act intended to help provide funds for the acquisition of low-cost housing. In addition, the Act also innovated the procedure for transferring mortgaged properties, which before was long and cumbersome. Now the process involves only three parties, the mortgager, the bank and the registrar of titles.[241]

The Mortgage Financing Act of 2008, which was developed with the help of the World Bank, formed the basis for the establishment of the Tanzania Mortgage Refinance Company (TMRC) in 2010. The purpose of the TMRC, a mortgage liquidity facility built as a private sector institution owned by the banks, is to support banks in mortgage lending by refinancing banks mortgage portfolios. The TMRC consists of 11[242] shareholding banks, all of which offer mortgages or plan to do so in the future.[243] Through the TMRC, long-term funding at attractive rates is offered, while ensuring sound lending habits and best practice among the banks. At first, a World Bank loan will be used to refinance the portfolio of member banks, but once this is expended, the TMRC will raise funds from the capital markets by issuing bonds. Although the TMRC initially made slow progress due to the lack of readily available mortgage portfolios in the market, it is anticipated that the TMRC will lead to the establishment of

[240] See MUTERO (2010), p.15 and CAHF (2013), p.165.
[241] See URBANSOLUTIONS (2012), p.24.and CAHF (2013), pp.165f and TMRC (2014) and MUTERO (2010), p.16.
[242] The TMRC shareholding banks are Azania Bank, Bank of Africa Tanzania, National bank of Commerce, CRDB Bank, Exim Bank, National Microfinance Bank, BancABC, NIC Bank Tanzania, DCB Commercial Bank, Tanzania Investment Bank and The People´s Bank of Zanzibar.
[243] See CAHF (2013), pp.165f and TMRC (2014).

specialized housing finance companies in the private sector in the long run.[244]

Compared to its East African neighboring countries, Tanzania´s mortgage market is still relatively small, though it is growing rapidly. Currently 19 different banks offer mortgage loans, but the number is expected to increase as more lenders continue to launch mortgage loan products. The ratio of outstanding mortgage debt to GDP is 0.36% in Tanzania.[245] As of December 2013, the total lending by banking sector for the purposes of residential housing was TZS 156.50 billion, which equals US$ 96.8 million. This represents an annual growth rate of 46%. The total number of mortgage loans also grew rapidly, from 1,889 at the beginning of 2013 to 2,784 by the end of December of 2013, which is an increase of 47%. The average loan size decreased over last year from TSZ 73 million in 2012 to TZS 62 million in 2013, which is equivalent to US$ 38,000. The average loan size thereby varied greatly across mortgage lenders, reflecting different strategies and customer bases, for instance, banks who target lower-income customers and banks whose target group are higher-income households. After a slow start the contribution of the TMRC in the mortgage market is increasing. Currently, refinancing and pre-financing mortgages advanced by TMRC to banking institutions are equivalent to 11% of total outstanding mortgage debt.[246]

However, since the majority of Tanzania´s population is unable to afford a mortgage, microfinance plays a crucial part in Tanzania´s housing finance sector. Therefore, the housing microfinance sector is growing steadily with commercial and non-commercial microfinance institutions entering the market. Although the largest microlending bank in the country, the National Microfinance Bank, offers actually no housing microloan product, it is acknowledged that 40% of the consumer loans it grants are used for housing purposes. Moreover, the Tanzanian government established a Housing Microfinance Fund (HMFF) in 2011, which the World Bank supported with US$ 3 million. Although the HMFF started slowly and initially failed to provide the targeted amount of loans, the future

[244] See CAHF (2013), p.166.
[245] The ratio for EU countries is around 50%.
[246] See BANK OF TANZANIA (2013), pp.1-5.

development of the housing microfinance sector in Tanzania seems to be very promising. The potential demand for housing microfinance is estimated to be over US$ 400 million, it was suggested that the financial industry could aim to fill 5% to 10% of the gap in the next five years.[247]

5.2.5 Judicial Context of the Housing Sector Regarding Mortgages and Land Rights

The most important laws with regard to housing finance and the mortgage market in Tanzania are Chapter X of the Land Act, as amended in 2004, and the Mortgage Financing (Special Provisions) Act No.17 of 2008.[248]
Tanzanian law states that all mortgage foreclosure of a family residence requires court intervention. In contrast, in most developed mortgages markets and in many developing countries, the legal systems support foreclosure without litigation, and in some cases even without any court procedure at all when the lending documents provide for this and the debtor does not arouse a credible challenge to the lender´s action. In Tanzania, however, some lending institutions argue that the legal and institutional framework regarding the creation and enforcement of mortgages is inefficient and biased in favour of the rights of borrowers.[249]
This perception is not ungrounded since there have been cases in the past where lenders faced difficulties in their rights to gain possession of and or to sell a mortgaged property due to injuctions and court interventions based on unsubstantiated extra-legal claims. In some cases this led to years of litigation and an ongoing lack of resolution of claims. The problem was also intensified by the lack of clarity in the relevant laws in regard to which courts are competent to hear mortgage-related litigation and a significant case backlog in the courts. Therefore some lenders hesistated to enter the mortgage market in the past.[250]
In order to address the problems in regard to the judicial context and the legal impediments of mortgage lending, the Mortgage Financing (Special Provisions) Act 2008 was enacted. In this Act, amendments are

[247] See CAHF (2013), p.166.
[248] See URBANSOLUTIONS (2012), p.27.
[249] See MUTERO (2010), p.24.
[250] See URBANSOLUTIONS (2012), p.27 and MUTERO (2010), p.24.

incorporated that aim at ensuring that the rights of both the mortgagor and the mortgagee are preserved. For instance, the the creditors' ability to enforce collateral by eliminating provisions that allowed for the delay and dismissal of foreclosure claims were strengthened through this Act. Moreover, the failure to disclose the mortgaging of a property to a spouse, which had been a major obstacle to collateral enforcement, was made a crime punishable by 12 months imprisonment or a fine of half the loan amount.[251]

For instance, under Section 114 (4) of the Mortgage Financing (Special Provisions) Act 2008 it states that:

„An applicant commits an offence who, by an affidavit or a written and witnessed document, knowingly gives false information to the mortgagee in relation to existence of a spouse or any other third party and, upon conviction shall be liable to a fine of not less than one half of the value of the loan money or to imprisonment for a term of not less than twelve months."[252]

Moreover, under Section 140 (2) the responsible court for mortgage–related claims is declared:

"Notwithstanding any other provisions of this Act an action for exercise of power of sale or of possession of mortgaged land may be brought in the Land Division of the High Court."[253]

When it comes to settling conflicts over land, both formal and informal tribunals have jurisdication to hear land disputes under Tanzania´s formal law. The Courts (Land Disputes Settlements) Act of 2002, the Land Act and the Village Land Act acknowledge the jurisdiction of informal elders councils, village councils and ward-level tribunals. In these forums, the main mode of dispute resolution is negotiation and conciliation. However,

[251] See HOFINET (2014) and URBANSOLUTIONS (2012), p.28.
[252] MORTGAGE FINANCING SPECIAL PROVISIONS ACT 2008, p.4.
[253] MORTGAGE FINANCING SPECIAL PROVISIONS ACT 2008, p.9.

due to a lack of capacity for creating the necessary institutions and funding, the forums have not yet reached their potential to address land disputes.[254]

The formal court system has a more adjudicatory approach and embodies district-level land courts, housing tribunals in urban areas, the land divisions of the high courts and the courts of appeal. Regardless of the tribunal, customary law will be applied to land which is held under a right of customary occupancy. Moreover, in addition to the informal and formal tribunals, the Commissioner of Lands can operate as an independent adjudicator. The commissioner thereby has the authority to commission an inquiry on land matters, conduct proceedings and reach determinations.[255]

[254] See USAID (2010), p.14.
[255] See USAID (2010), pp.14ff.

6 Research Analysis of Tanzania´s Housing Market

It has been shown that the real estate sector and housing finance market bring together complex and multi-sector issues that are driven and influenced by constantly changing local characteristics such as the legal environment, culture, economic background, regulatory environment and political system of a country. The literature review as well as the interviews with local housing finance experts has revealed that SSA, respectively Tanzania, has made some progress in regard to its economic and financial development but is facing a number of problems and constraints when it comes to the installation of a functioning and effective housing finance system. Among the most significant and exigent challenges are especially the macroeconomic conditions that affect the housing finance market, affordability problems due to high rates of poverty among the population, land issues, housing delivery problems that are caused by high construction cost and a lack in the provision of adequate infrastructure as well as an inadequate legal system with regard to housing finance. On the basis of the literature findings and the answers from the questionnaires (see Appendix 3), following challenges and constraints on housing finance in Tanzania have been discovered.

Due to economic and financial sector reforms in the past decades significant progress has been made in Tanzania´s economic development. In the last decade, the country has experienced stable economic growth rates and is expected to grow even further in coming years. Although Tanzania was able to reduce its high inflation rate and interest rates have also stabilized, they are still quite high compared to its neighboring countries and still quite volatile. The mortgage-lending rate of 18%-21%[256] is still very high and one of the major obstacles for growth of the mortgage market according to the consulted experts.[257]

Moreover the mortgage market in Tanzania is very small with only 19 banks offering mortgage loans and the banks involved in mortgage lending are small banks with very limited capital. Banks therefore face the

[256] See BANK OF TANZANIA (2013), p.3.
[257] See KUSILUKA (2014), MGAYA (2014) and MUTAGWABA (2014) in Appendix 3.

challenge of generating long-term funds which are needed for mortgage financing, since a secondary mortgage market is still absent in Tanzania. In order to address this funding issue, the Tanzania Mortgage Refinance Company (TMRC) was introduced. However, since the TMRC was only implemented in 2010 and suffered a slow start, its actual impact and contribution on Tanzania´s mortgage market development cannot really be assessed as yet.[258]

Another challenge for the development of the mortgage market is that mortgage finance requires the property as collateral. Many people are therefore reluctant to take out mortgages because in case of a default they are afraid of losing their home, which is often the most valuable asset for their family. Therefore they prefer consumer loans which do not require their property as collateral. Since the mortgage market is still very small, a huge part of the population lacks awareness of mortgage finance. According to the local expert Dr. Kusiluka, there is generally a negative attitude towards borrowing in Tanzania´s society, since many people consider borrowing to be shameful. Moreover, trust is also an issue, as many people lack confidence in the banking sector and therefore do not want to enter formal financial markets.[259]

In general, the affordability of housing and housing finance is one of the major challenges Tanzania´s real estate market is facing. Due to high rates of poverty, very limited levels of formal employment[260] and low salaries, only a small percentage of high-income households is actually able to qualify for a mortgage. The majority of the population works in the informal sector which makes their income not assessable for banks. Most households finance their housing construction by cash or incrementally whenever capital is available. Therefore nearly 98% of houses countrywide and 90% of houses in the urban areas are constructed incrementally.[261] Unplanned and informal settlements provide a major amount of urban dwellings for both the poor and middle-income households. In order to address the housing needs of this population

[258] See KUSILUKA (2014), MGAYA (2014) and MUTAGWABA (2014), Appendix 3.
[259] See KUSILUKA (2014), Appendix 3 and KATABUA (2014).
[260] Only 9% of urban adults are employed in the formal sector according to CAHF (2013), p.166.
[261] See TOMILSON (2007), p.14.

group, the provision of housing microfinance is essential since it supports the incremental housing construction character. Despite the huge demand of microfinance loans, housing microfinance is still underdeveloped in Tanzania and microfinance institutions have only very limited capital at their disposal. However, the situation is expected to improve with the establishment of the Housing Microfinance Fund (HMFF) as part of the Housing Finance Project in Tanzania.[262]

With regard to the affordability of housing major constraints are the high costs of land and construction materials and machinery, which have to be imported and are therefore very costly. The absences of formal housing developers provoding pre-built homes on a larger scale makes housing especially expensive, since it is not possible to economize in housing development and construction materials.

The lack of affordable housing can also be traced back to the failure of the government to cope with rapid population growth and increased urbanization, since there is now an acute shortage of planned and registered land and a lack of infrastructure in planned areas, which is an essential requirement for a large scale formal housing supply. The rapid growth of the urban population combined with high levels of urban poverty has also led to the creation of massive slum neighbourhoods in urban areas. In general, there is a high demand for development and improvements in infrastructure, sanitation services and electricity in these informal settlements in order to improve the existing housing stock and make land available for formal housing. Moreover, infrastructure investments are also important to improve the competitiveness of Tanzania´s economy in the long run and stimulate further growth.

Currently, only 5.5% of land on mainland Tanzania is owned under offical land titles.[263] Therefore, the majority of the population owns land informally without the necessary legal deeds which banks require to grant a mortgage. Various systems of land ownership and a lack of formally

[262] See KUSILIKA (2014) and MGAYA (2014), Appendix 3
[263] See NATIONAL BUREAU OF STATISTICS TANZANIA (20139, p.46.

surveyed land are major contraints on efficent planning and the establishment of a functioning land and mortgage finance market.[264]

With regard to the the legal environment and judicial context of houising finance, some improvements have been made. Through the implementation of the Mortgage Financing (Special Provisions) Act of 2008, the legal framework for mortgage finance was clarified and improved. However, the foreclosure process needs reform, since all foreclosures still require court action. According to Hermes Mutagwaba, the assistant to the CEO of the National Housing Corporation Tanzania, a non-judicial foreclosure law is necessary in order to improve mortgage provision.[265]

The absence of a credit reference bureau makes it also challenging for banks to evaluate the default risk accociated with the mortgagor.[266] As a result, mortgage rates are higher since they have to incorporate the credit risk. Moreover, the bank´s employees are often not properly educated and lack the necessary skills in housing finance. In this case, it is also risky for banks to engage in mortgage lending.

[264] See KUSILIKA (2014) and MGAYA (2014), Appendix 3.
[265] See MUTAGWABA (2014), Appendix 3.
[266] See CAHF (2013), p.166.

7 Recommendations for Improvements in Tanzania´s Housing Finance Sector

According to the literature review and the interview findings, it is necessary to implement the following requirements in order to improve the situation of the housing finance sector in Tanzania.

First of all, the consulted local experts emphasized that the macroeconomic situation of Tanzania needs to be further stabilized. A stable macroeconomic environment and a growing economic performance will eventually lead to an increase in incomes and employment and improve the overall financial situation of the country´s population over time, which will have positive effects on the housing demand and the ability to access housing finance. In this context, the government needs to implement further monetary and fiscal policies to reduce inflation and interest rates in the long run in order to make housing more affordable, since they highly influence a person´s ability to purchase a property. Moreover, the job creation has to be stimulated and more people need to be brought into formal employment, especially among the youth population group in order to decrease unemployment rates and reduce the huge level of informal employment in the country. A structural transformation of the economy is necessary to decrease the dependence on agriculture and create more jobs in other economic sectors, such as for instance in services and manufacturing and construction. However, those formally employed must also earn enough to afford a mortgage loan. Therefore, an increase in incomes must also be encouraged by governmental policies and further economic growth.

In addition, the legal framework for property rights has to be revised. The co-existence of formal and informal land administration systems can lead to confusion over land rights. Therefore, sound property rights and clear procedures for regularizing informal land ownership need to be developed and established. The judicial procedures regarding litigation and resolving disputes over land also require improvement. It is necessary that the government supports the capacity and funding of both formal and

especially informal jurisdication forums in order to help them reach their potential in addressing land disputes.
With regard to the judicial context of housing finance, especially the foreclosure process needs reform in Tanzania, since so far all foreclosure procedures need court action, which often keeps banks from lending because of the difficulties involved with this process. Non-judicial, out-of-court processess, however, would make housing finance more attractive to lenders and therefore encourage more banks to enage in offering mortgage finance. A non-judicial foreclosure law is therefore necessary.
When it comes to the development of a functional and formal property market, it became clear that an efficient housing supply chain needs to be established. In this case, the provision of infrastructure is especially crucial, since, for instance, developers are not able to construct without access to water and the connection to infrastructure and water is also a necessary requirement for a subsequent occupation. However, providers of water and electricity infrastructure are reluctant to provide their services until there is a critical mass of consumers. Moreover, the major infrastructure backlog with regard to electricity, sanitation services and roads is also a burden to Tanzania´s economy, since it hinders the country´s economic development and competitiveness. Therefore the government has to increase its investment in infrastructure development to increase the supply of serviced and surveyed land in order to enable the construction industry to offer housing at a larger scale, which would consequently reduce construction costs, clear construction bottlenecks as well as benefit the provision of housing finance. Moreover, this procedure would stimulate the construction industry through the creation of jobs and also induce spillover effects on other economic branches and sectors which are associated with real estate and housing finance (see chapter 3). In addition, infrastructural investments would also improve the business environment for enterprises and advance Tanzania´s economic competitiveness.
Moreover, the construction costs for housing are still far too expensive for the majority of the population. That is because the majority of the building and construction materials as well as the required machinery have to be

imported and are therefore very costly. Due to lack of local developers and infrastructure as well as high construction costs, large scale developments of pre-built housing are almost non-existent in Tanzania. However, they would be necessary to reduce costs through economies of scale and hence make housing more affordable. It is, therefore, crucial to support the development of a local building materials and construction industry and promote the usage of local building materials and machinery for housing construction. Consequently, dependence on expensive imported construction goods would be reduced and the costs for housing construction lowered. In general, more local developers building a stock of affordable houses are necessary to stimulate the real estate market. In addition, the government should introduce housing subsidies to lower house prices and make housing more affordable for the majority of the population.

To improve the situation of the housing finance sector, the mortgage market environment needs to be further strengthened. Here, the development of an effective title registration system as well as the formalization of informal land ownership are vital. Formal tenure has to be encouraged and rights enforced. However, the registration process of a property is currently still a long-drawn and costly procedure in Tanzania and therefore not affordable for large parts of the low-income population. In order to increase the registration of land titles in informal settlements, the registration process needs to be made less complex and less expensive so that more people are able to afford the title deeds.

In terms of the evaluation of affordability of housing finance, changes also need to be made. Official statistics on affordability levels only cover people with formal income. However, a major part of Tanzania´s population is only employed in the informal sector. Affordability levels of housing finance might actually be even higher if infomal income is also taken into account. Therefore flexible underwriting approaches with regard to evaluating incomes have to be implemented. For instance, rental income from subletting should be acknowledged in the assessment of affordability, since it can also serve as a stable source of income in urban areas where the demand for rental occupation is high. This revised approach to evaluate the affordability of borrowers would enable lenders to reach more people with their mortgage loans. In general, banks should offer different loan sizes and mortgage products in order to extent their products to different income groups and hence a bigger part of the population. Through these steps, access to mortgage finance could be broadened and the development of the market stimulated.

The creation of risk evaluation and management tools as well as the implementation of credit information bureaus which offer borrower credit information and income verification are also important requirements for banks in order to reduce the risk that is associated with offering housing finance. In addition, the professional education in real estate and housing finance should be improved. Well-educated employees in the banking and construction sector as well as other real estate associated businesses are important for a professional development of the real estate sector and housing finance market in Tanzania. Education is an important factor in reducing the risks and challenges that are associated with housing finance, since experts have insights in the various factors that influence the real estate market and are therefore in a better positions to evaluate market conditions and developments.

In addition, an increase in public awareness and education on mortgage finance is also necessary, since, according to Dr. Kusiluka, a huge part of the population is still not familiar with mortgage finance and its requirements. Therefore public awareness campaigns by banks and the government should be implemented in order to inform the population about these products. Moreover, the negative attitude towards borrowing should be reduced through these campaigns and the benefits of formal savings with a banking account and housing finance for the financial situation of households explained.

In addition, the financial risk that occurs in connection with mortgage finance needs to be managed. For instance, mortgages with fixed interest rates should in this case be avoided, since their interest rate risk is very high. Moreover, liquidity management tools need to be developed and capital markets should be accessed and strenghtened. In general, the competition among mortgage lenders has to increase in order to stimulate the housing finance market and reduce interest rates in Tanzania. As soon as the mortgage market becomes more advanced, the development of a secondary mortgage market for capital funding requires further support by using capital market instruments like securitisation and government pension funds.

The development of the mortgage market should also be stimulated by the provision of long-term funding sources. This can be achieved by encouraging savings mobilization through the creation of contract savings institutions. Since the mortgage market in Tanzania is still quite insignificant and in its infancy, the primary market development needs to be supported further by introducing simple mortgage-backed debt instruments. In addition, the secondary mortgage market needs to be established in order to further stimulate the growth of the mortgage market. Since the effectiveness of the Mortgage Financing (Special Provisions) Act (2008) can not be evaluated so far, because it was implemented only recently, the Tanzanian mortgage law needs to be adapted in case problems occur in the future implementation.

However, the general problem with mortgage finance is that only a very small part of high-income households in Tanzania is actually eligible for mortgages. The majority of the population in fact lacks the necessary requirements for formal housing finance – a stable and formal employment, an adequate income, a bank account as well as registered land rights. It is, therefore, extremely important to make other forms of housing finance such as housing microfinance available in order to improve the existing housing stock in Tanzania. Housing microlenders offer loans whose requirements are adjusted to the needs of people with informally owned incomes and no legal title of their property. The size of housing microloans can be adjusted to the household´s level of affordability so they are able to improve their housing circumstances incrementally whenever income is available. Therefore, housing microfinance is essential in order to improve the housing stock and living conditions in Tanzania. The government should promote and support the microfinance sector by generating the necessary funds and banks should also increase their commitment to microloans for housing purposes. When housing microloans are successfully used, they not only contribute to an improvement in the housing stock but also enable homes to generate income. These improved homes might even become mortgageable over time and hence an important financial asset for the owner. Moreover, through the creation of a credit history with housing microloans, the borrower might even be able to gain access to the financial system and further financial services which will benefit the development of the overall fiancial sector in the long run.

8 Conclusion

This study attempted to provide an overview of the current situation and challenges of the housing finance sector in SSA and Tanzania respectively, as well as highlight the importance of real estate and housing finance for SSA´s population and economic development.

In the course of the study, the situation of the main requirements and influencing factors for real estate-related financing were analyzed. It was shown that after a long period of economic and political mismanagement, the majority of SSA´s countries has improved its economic environment and is experiencing stable economic growth over the past decade.

However, the situation in regard to the regulation and administration of land, access to finance as well as high rates of urbanization and poverty are still very challenging for the implementation of an efficient housing finance market and might even worsen if SSA´s governments fail to address these issues in the long run. The effects of the urbanization process are especially alarming, since the urban population already lives predominantly in slums under conditions that are often hazardous to health.

Overall, formal housing finance is not affordable for the main part of SSA´s population since actually only a small percentage of high-income households actually meet the necessary requirements of mortgage finance and hence are eligible for mortgages. Therefore housing microfinance is becoming extremely important in addressing the housing needs of the majority of the population who mainly built their homes in incremental steps by themselves. The housing microfinance sector has to be further developed in order to improve the overall housing condition in SSA.

With regard to the situation of the housing finance sector in Tanzania it became obvious that real estate related financing is still in the early stages of its development and has an enormous potential for future growth. Tanzania managed its economic and political transformation well and has implemented various policies and the necessary legal framework in order to support the development of formal mortgage financing. The Bank of Tanzania has also a positive outlook on the future development of the country´s mortgage market. It is expected that the construction of affordable houses by the NHC over the next 3 years will stimulate market growth. Moreover, most pension funds are engaged in advancing mortgage loans to their member, which will also boost the further development of mortgage finance in Tanzania.[267] In addition to mortgage finance, there is also a huge potential of growth in the housing microfinance sector. Due to high levels of self-built housing construction in Tanzania, an active and substantial microfinance sector with linkages to formal banking institutions can have a major impact in housing the majority of Tanzania´s population.

In the course of this study it was shown that the housing asset is very complex and has not only major impact on the social, financial and economic situation of its owner, but also on an entire country. Due to the complexity of the housing asset, housing finance has various linkages to the economic, social, political, financial and legal environment of a country, which makes the requirements for the implementation of an efficient housing finance system very diverse and challenging. It became clear that the provision of adequate and affordable housing is a crucial factor in overcoming the economic and demographic challenges SSA is facing. Therefore, a comprehensive housing finance sector that serves the different housing needs of all parts of SSA´s population is an essential requirement for the improvement of SSA´s further economic and social development.

[267] See BANK OF TANZANIA (2013), p.3.

Appendix

Appendix 1

Key Differences in the Perception of Land in Customary and Common Law

Customary Law	Common Law
Land is not considered private property.	Land is considered private property.
Land is not a commodity, it is mostly inherited or granted by a king or chief.	Land is a commodity.
Land has symbolic and spiritual value, it is not just a physical entity.	Land may have symbolic and spiritual value but it is mostly seen as a physical entity.
Access to land is shaped by social and political relationships.	Access to land is shaped by social and political relationships and by economic means – being able to afford to lease or by.
Land can not be sold by the people living on it – communal or family tenure is conferred by a chief or king, as determined by social practices rather than financial practices.	Land titling – alienating land to an individual under freehold or leasehold tenure – is a process governed by access to finance for purchase or lease of the land, and by market pricing of the land.
Social practices rooted in tradition dominate the occupancy and use of the land.	Financial practices such as lease, rental or purchase contracts dominate the occupancy and use of land.

Source: UN-HABITAT (2011b), p.10.

Appendix 2

Registering Property in Tanzania (according to the “Ease of Doing Business-Data” of The World Bank)

No.	Procedure	Time to Complete	Associated Costs
1*	Obtain an official search at the Land Registry	7 days (simultaneous with procedures 2, 3, and 4)	TZS 40,000
2*	Obtain land rent clearance from the Land Ministry showing payment of rents for the past 10 years	1 day (simultaneous with procedures 1, 3, and 4)	No cost
3*	Submit application letter to obtain evaluation at Ministry of Lands	6 days (1 day to submit application + 5-day waiting period for evaluation appointment) (simultaneous with procedures 1, 2 & 3)	The official valuation fee is calculated by using the following formula: (Property Value – 200,000) * (1.25/1000) + 550 + valuation approval fee of 0.01% of property value
4	A government valuer inspects the property to confirm its value	8 days (1 day to complete valuation + 7-day waiting period for delivery of valuation report)	Paid in procedure 4
5	Notarization and execution of the sale agreement and preparation of the transfer deed	1 day	Approximately 3% of property value
6	Obtain approval for the transfer	2 to 3 weeks	TZS 5,000 approval fee
7	Obtain a capital gains tax certificate from the Tanzania Revenue Authority	2 to 3 weeks	No cost
8	The transfer deed is delivered to the Land Officer for its recording under the name of the buyer at the Lands Registry	2 weeks	1% of property value (Stamp duty) + Registration Fee as follows: registration fee (0.25% of the property value + 500 for the instrument)

* Takes places simultaneously with other procedures.

Source: THE WORLD BANK (2014).

Appendix 3

Interview Questionnaires

Questions on Housing Finance in Tanzania: Answers from Hermes Mutagwaba

1) How would you evaluate the situation of Tanzania´s housing finance sector?
   The housing finance in Tanzania is still incipient (0.36% of GDP in 2013) but is growing steadily. The growth rate during 2013 was 46% p.a.

2) What are the biggest challenges Tanzania´s mortgage market is facing and how can those challenges be addressed?
   Monetary and fiscal policies that aim at containing inflation and excessive Government borrowing (high yield on treasury bills) both of which keep lending interest rates high.

3) What is the average interest rate currently paid on mortgages in Tanzania?
   18% - 21% p.a.

4) What are the major constraints and problems of expending housing lending to the low and middle- income population?
   Low formal income of the majority of the population, absence of affordable housing and high interest rate.

5) How would you evaluate the situation of housing microfinance in Tanzania?
   It is as yet to start but the majority of low- income earner take micro loans with high interest rates to finance incremental housing development.

6) How would you evaluate the condition of Tanzania´s legal framework (e.g. land registration and foreclosure) in regard to

housing finance? Do you think the legal infrastructure for mortgage lending is adequate in Tanzania? Which improvements need to be done?

The legal framework has been improved through the Mortgage Law of 2008 and administrative reforms in the land registry. Foreclosure is still non-judicial and not quite straight but lenders seem to be comfortable. A non-judicial foreclosure law would improve mortgage provision.

7) What are your recommendations in order to improve the development

Tanzania´s housing finance sector?

Institution of mortgage fund that can be accessed by TMRC; monetary and fiscal policies to bring down interest rates; proper supervision of lenders by the Bank of Tanzania in order to tame high spread between lending and deposit interest rates.

Questions on Housing Finance in Tanzania: Answers from Dr. Moses Kusiluka

1) What are the biggest challenges Tanzania´s mortgage market is facing and how can those challenges be addressed?

Biggest challenges include the following:

i. *There is a very small number of banks issuing mortgage loans (about 10)*
ii. *The banks which have been involved in mortgage loans are small banks with very limited capital*
iii. *Very high interest rates (>18%)*
iv. *Short repayment periods (less than 20 years for many banks)*
v. *Poverty – only few people can qualify for mortgage loans because salaries are very low*
vi. *Absence of secondary mortgage market*
vii. *Many people own land informally – they do not have legal papers which can be accepted by banks*
viii. *Lack of mortgage awareness amongst members of the public*
ix. *High construction cost and inflation*
x. *Many people work in the informal sector – they income cannot be easily predicted/assessed by banks*

What should be done?

I have no certain answer but many efforts are in place to improve the situation. Some of the efforts include:

i. *Establishment of mortgage refinance company (TMRC – check their website)*
ii. *Offering public education on mortgage – The Bank of Tanzania does this*
iii. *Formalizing informal land ownership*

2) What are the major constraints and problems of expending housing finance to the low and middle- income population in your opinion?

   Major constraints include:

   i. *Low salaries – when mortgage is deducted only very little money remains to finance other important activities*
   ii. *Many people prefer consumer loans (short term loans)*
   iii. *High interest rates scare potential borrowers*
   iv. *Irregularity of income/jobs*
   v. *Negative attitude towards borrowing – many people consider borrowing as a shame in the society!*

3) How would you evaluate the situation of housing microfinance in Tanzania?

   i. *Housing microfinance is still underdeveloped in Tanzania*
   ii. *Microfinance institutions have very limited capital and thus cannot lend large sums of money to finance whole house construction. It is mainly possible to only finance house renovation or only one stage of the construction process*
   iii. *Microfinance institutions issue only short term loans – which are not very meaningful to housing finance*

4) How would you evaluate the condition of Tanzania´s legal framework (e.g. land registration and foreclosure) in regard to housing finance? Do you think the legal infrastructure for mortgage lending is adequate in Tanzania? Which improvements need to be done?

i. *By and large, the legal framework is adequate – a lot of improvements have been made over the past 20 years*
ii. *One of the main problem remains to be that most of the land in Tanzania is not surveyed/titled which denies access to mortgage finance to those who own such lands*
iii. *Another problem is the existence of a nascent capital market - There is a need to increase efforts to promote financial markets*
iv. *Need to promote secondary mortgage markets in order to guarantee the flow of funds*

5) What are your recommendations in order to improve the development of Tanzania´s housing finance sector?

i. *Strengthen capital markets and use them to raise funds for financing mortgages*
ii. *Introduce subsidies for housing to lower house prices*
iii. *Increase public education/awareness programmes on mortgage finance*
iv. *Promote microfinance sector*

Questions on Housing Finance in Tanzania: Answers from Oscar Mgaya

1) How would you evaluate the situation of Tanzania´s housing finance sector?
   Work in progress but improving largely because of the Housing Finance Project which is collaboration between the government of Tanzania and the World Bank.

2) What are the biggest challenges Tanzania´s mortgage market is facing and how can those challenges be addressed?
   a. *Supply of affordable housing units – more developers are starting to now focus on this segment of the market*
   b. *High interest rates – largely will depend on government fiscal and monetary policies.*

3) What is the average interest rate currently paid on mortgages in Tanzania?
   18%

4) What are the major constraints and problems of expending housing lending to the low- and middle- income population?
   a. *Lack of stock of affordable housing units*
   b. *Low incomes are a challenge in terms of affordability*
   c. *High interest rate makes mortgages too expensive for low income earners*

5) How would you evaluate the situation of housing microfinance in Tanzania?
   Tanzania Housing Microfinance situation is about to improve with the implementation of the Housing Microfinance Fund (HMFF) which is due to be established in 2014 as part of the Housing Finance Project in Tanzania.

6) How would you evaluate the condition of Tanzania´s legal framework (e.g. land registration and foreclosure) in regard to housing finance? Do you think the legal infrastructure for mortgage lending is adequate in Tanzania? Which improvements need to be done?

   The legal framework is much better now after the Mortgage Finance (Special Provision) of 2008 was passed to be law. Now more enforcement of the law is needed.

7) What are your recommendations in order to improve the development

   Tanzania´s housing finance sector?

   1. *More institution providing mortgage loans*
   2. *More developers building a stock of affordable houses*
   3. *Fiscal and monetary policies by the government to support low lending/mortgage rates*

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Statutory Declaration

I declare that I have developed and written the enclosed thesis entitled

„Requirements for Real Estate Related Financing in Selected African Markets“

entirely by myself and have not used sources or means without declaration in the text. Any thoughts or quotations which were inferred from these sources are clearly marked as such.

This thesis was not submitted in the same or in a substantially similar version, not even partially, to any other authority to achieve an academic grading and was not published elsewhere.

Regensburg, 28.March 2014

Sandra Markert