

AFFORDABLE HOUSING

Tapping new markets



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1 EXECUTIVE SUMMARY

Goals & Methodology Summary

PROJECT GOAL

- 1 To explore and understand how people use formal and informal financial solutions when building, purchasing or renovating houses.
- 2 To use these insights to design effective policy and product solutions to boost the formal housing finance market.

PROJECT METHODOLOGY

We used a variety of qualitative research techniques to develop insights into the formal housing finance market. We leveraged on these and domain knowledge to develop solutions for FSPs and policymakers.

AREAS OF RESEARCH



Housing Finance Insights Summary

- Different financing tools are implicitly assigned for different housing materials, and limitations to certain finance methods drives exclusion from more optimal housing materials.
- Formal finance places excessive weight on permanent collateral options and fixed interval income, excluding seasonal income producers.
- Housing design is limited to the whims and capacity of contractors in the area, and while individuals can identify individual features, they have limited authority to push for them at initial construction.
- Housing decisions are largely influenced by the availability of relevant information

Product & Policy Solutions Summary

POTENTIAL PRODUCT SOLUTIONS

- 1 Support a wider range of collateral and repayments structures 
- 2 Support consolidation of convoluted supplier chains 
- 3 Support progressive house construction 
- 4 Leverage credit on secured investments 

POLICY RECOMMENDATIONS

- 1 Housing finance Credit Guarantee Schemes 

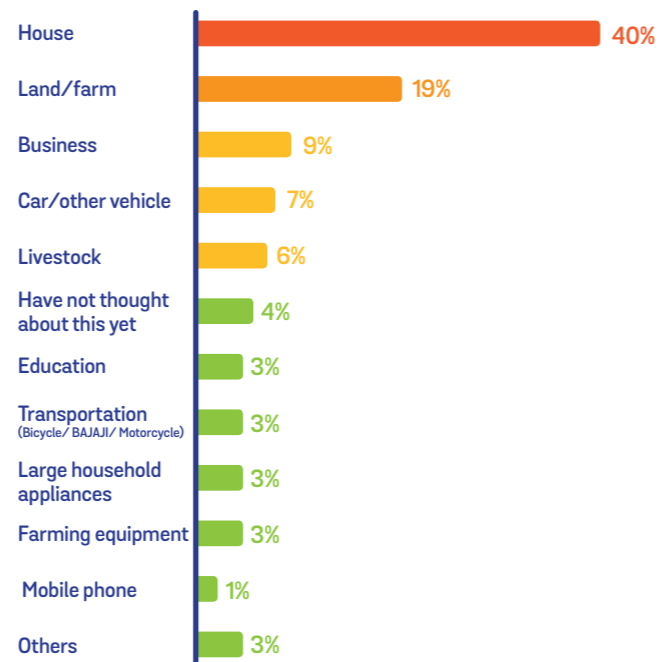
2 BACKGROUND

House ownership is core to people's wellbeing in Tanzania

FinScope 2017, a representative national study on Tanzanians financial lives carried out by FSDT, found that housing was the number one asset that people want to buy but cannot afford. There is both a strong demand for home ownership, and a lack of capacity to obtain it.

This demand is not surprising; housing is a basic human need alongside food and clothing. Owning one's own home can bring social prestige, psychological comfort, and an economic boost for a household.

Can you think about something you want to buy but you cannot afford?*



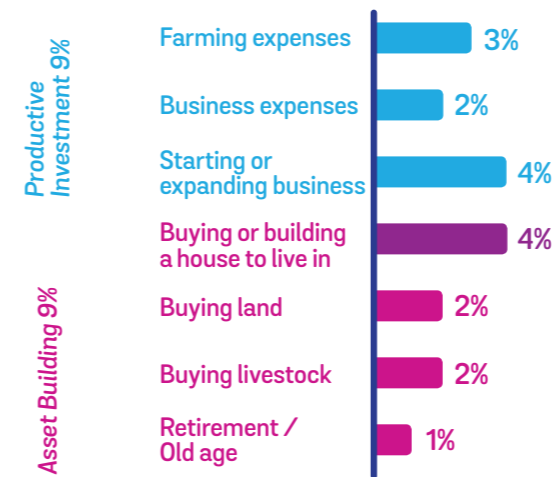
*Data from FinScope Tanzania 2017

Where Possible, Available Financial Services are Used for Housing

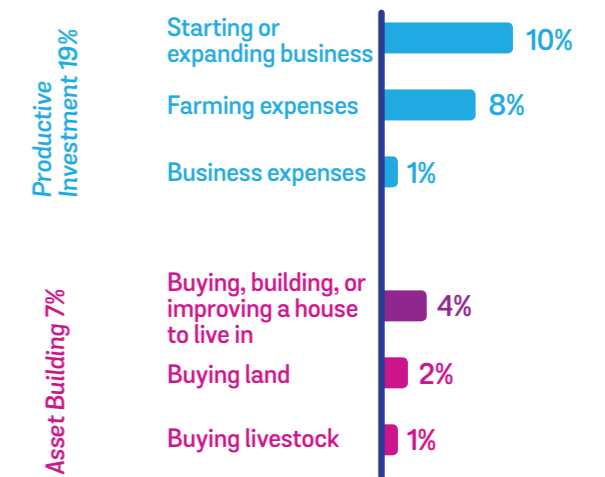
Aside from saving for cashflow smoothing purposes, the number one reason people save in Tanzania is to buy build a house. Similarly, excluding loans for the purpose of overcoming immediate liquidity constraints (e.g. paying for medical emergencies), buying, building or improving a house is only behind business investment as the reason for taking credit.

Clearly, Tanzanians not only demand home ownership, but are taking concrete steps to achieve this through the use of financial services.

Why do people save?*



Why do people borrow?*



However, Formal Financial Services are Lacking

The mortgage market is growing...

...but is still small, and focused on higher-income segments

mortgage lenders: **3 → 30**
2009 to 2017

mortgages: **4,065**
as of June 2017

interest rates decreased: **19% → 16%**

mortgage amount: **USD 41,952**
duration of 15-20 years

*Data from FinScope Tanzania 2017

3 RESEARCH METHODOLOGY

Stage 1: Scoping

STUDY LOCATION

This study was carried out with urban, peri-urban and rural respondents in Lindi region in South-East Tanzania. Lindi was chosen to utilize insights from an existing savings group network in the region, and as the base for potential further engagement with a FSP partner which worked in the area.

This location provided a wide range of case studies, from urban business owners to rural cash crop (coconut, cashew and sesame) and subsistence farmers.

STUDY SAMPLE

- Potential or current formal housing finance beneficiaries
- Community leaders
- Financial Service Providers
- Housing Suppliers



Stage 2: Qualitative Research

We then carried out qualitative research to build deep insights into people’s engagement with finance for housing, focusing on 4 key themes highlighted as important in initial informal respondent interviews.



FOCUS GROUP DISCUSSIONS

Interviews with groups of beneficiaries, leaders, FSPs and suppliers.



COMMUNITY WALKS

Identifying, through action, participants’ thought processes around house acquisition.



IN-DEPTH INTERVIEWS

Interviews with individuals to understand barriers – actual and perceived – in the existing system.



OBSERVATIONS

Identifying different housing and community structures.



Stage 3: Product & Policy Creation

Building on the stage 2 insights, we developed practical, high-impact solutions for Financial Service Providers (products) and regulators/government bodies (policies).



PRODUCTS

How can FSPs tailor their offerings to promote an effective housing finance market? What specific products and programs may be effective, profitable and simple to implement?



POLICIES

How can the government and regulators support the market to provide consumers with low-cost, accessible sources of finance for the construction of housing?

4 RESEARCH INSIGHTS

Accessibility & Finance



Accessibility to formal finance faced the following barriers:

- Lack of required collateral
- Lack of formal proof of land ownership
- Easily accessible informal finance

The choice of financial services was largely governed by:

- Varying income structures (monthly payments are usually required, while rural farmers typically receive seasonal payments)

Demand for more modern homes met the following issues:

- High price and low availability of raw materials
- Lack of available contractors

Education & Information Channels



There was a clear demand for more user-centric, simplified and easily accessible information channels:

- Respondents typically lacked awareness of available formal channels.
- Respondents typically stated a preference for receiving information through mobile phones and in person.
- Mobile money platforms were particularly trusted as a means of information.

A lack of transparency was a big barrier to uptake:

- People expressed a lack of clarity on fees and interest rates.
- People expressed a belief that larger institutions tended to have more hidden fees.





Perceptions of Housing Finance

Formal employees were considered to have the greatest access to housing finance:

- People perceive housing finance as placing a high weight on monthly repayments and formal employment.
- Formal employment and business ownership (urban activities) were therefore seen as more appropriate for accessing housing finance than subsistence and cash crop farming (rural activities)

People generally believe in their ability to generate income, but not in their ability to access formal finance:

- There was a strong savings culture among respondents.
- Respondents were not always confident in their ability to access loans.



Cultural & Financial Practices

Social and cultural influences vary on financial practices:

- Social networks are vital sources of informal finance.
- Informal services can offer the desired flexibility in collateral and repayments that formal sources cannot.
- Larger financial needs are satisfied through borrowing from business circles.
- Seasonal income is often accumulated in preparation for house construction post-marriage.

Urban, peri-urban and rural areas see large differences:

- Intermittent government controls exist in all areas, though informal negotiations for land purchases and construction guidelines are most common in peri-urban areas.
- Housing finance is similar, though housing designs vary.



Sources of Housing Finance

The barriers that lead to a prioritization of personal and social over formal finance are by no means insurmountable. In fact, most problems are ones of information gaps and demonstrating value, rather than challenges of production potential and economic scarcity, meaning there is high potential in process shifts, rather than formal economic intervention or subsidies.



PERSONAL FINANCE

Largely constructed of savings and income payments.



SOCIAL FINANCE

More substantial, but requires expending a great deal of social capital.



FORMAL FINANCE

Highest potential, but is deemed largely inaccessible to the target population.

Common Customer Profiles

TYPE	LOCATION	INCOME PATTERN	OCCUPATION	COLLATERAL
FORMALLY EMPLOYED / BUSINESS CUSTOMER	Urban	Monthly	Government /Self employed	Business shares, home, property
CASH CROP SEASONAL FARMING CUSTOMER	Urban / Rural / Peri-urban	Annual / Quarterly (seasonal)	Commercial farmer	5-50 acre lease
COMPLETION / RENOVATION CUSTOMER	Urban / Rural / Peri-urban	Variable	Variable	Existing home / title deed
SMALL HOLDER FARMING CUSTOMER	Rural / Peri-urban / Urban	Daily / Weekly	Small holder farmer in a savings group	Locked group savings contributions

Preferred Home Designs

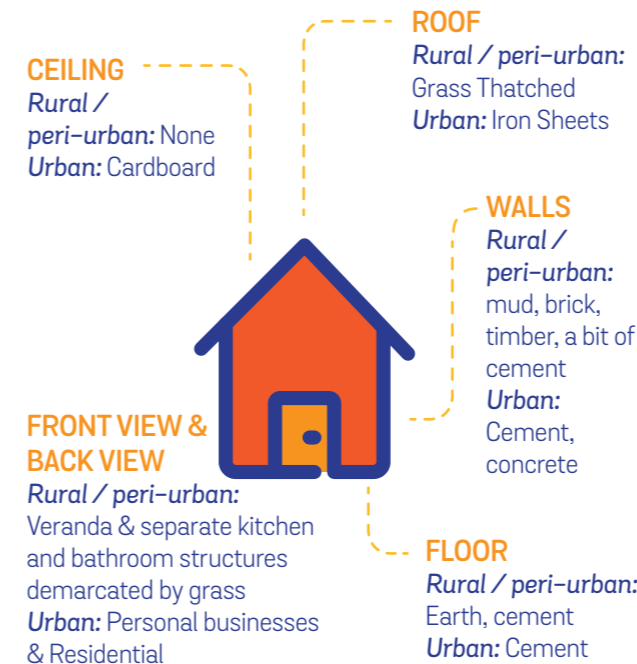
CURRENT HOME DESIGNS

Design Features & Amenities

Most homes were one room bungalow structures with low ceilings and veranda areas. Toilet and kitchen facilities are often separate structures with stick divides. Most homes had access to electricity but still depended on shallow wells and boreholes for water.

Materials

Grass, sticks and tree branches, brick, water, manure



Upkeep & Building Materials

Cemented homes often chip from the ground up due to high saline content in soil and low quality plastering. There were many mud-walled homes observed and most homes seemed run down with need for renovation.

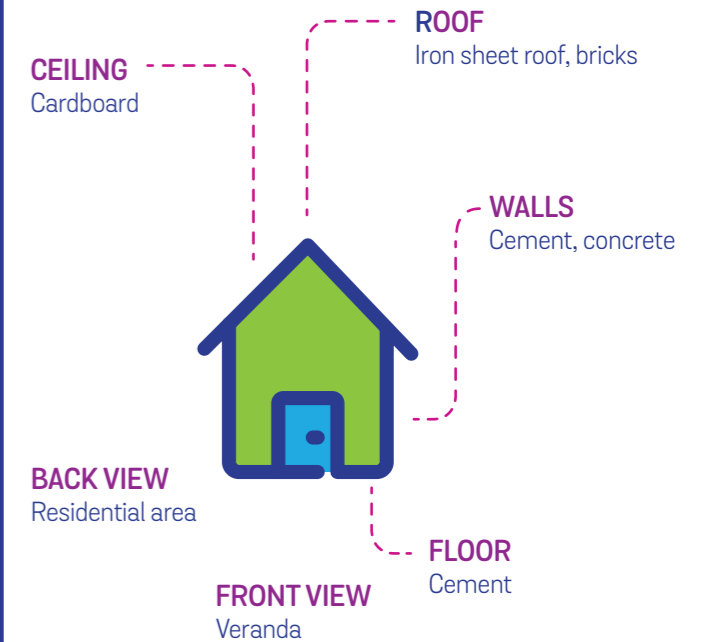
IDEAL HOME DESIGNS

Design Features & Amenities

Respondents reported to three bedrooms, want taller ceilings with air leeway between the wall and ceilings in order to regulate the heat in the houses. There was reported demand for modern home designs, and self-contained kitchen and toilet facilities.

Materials

Iron sheets, cement, water, concrete

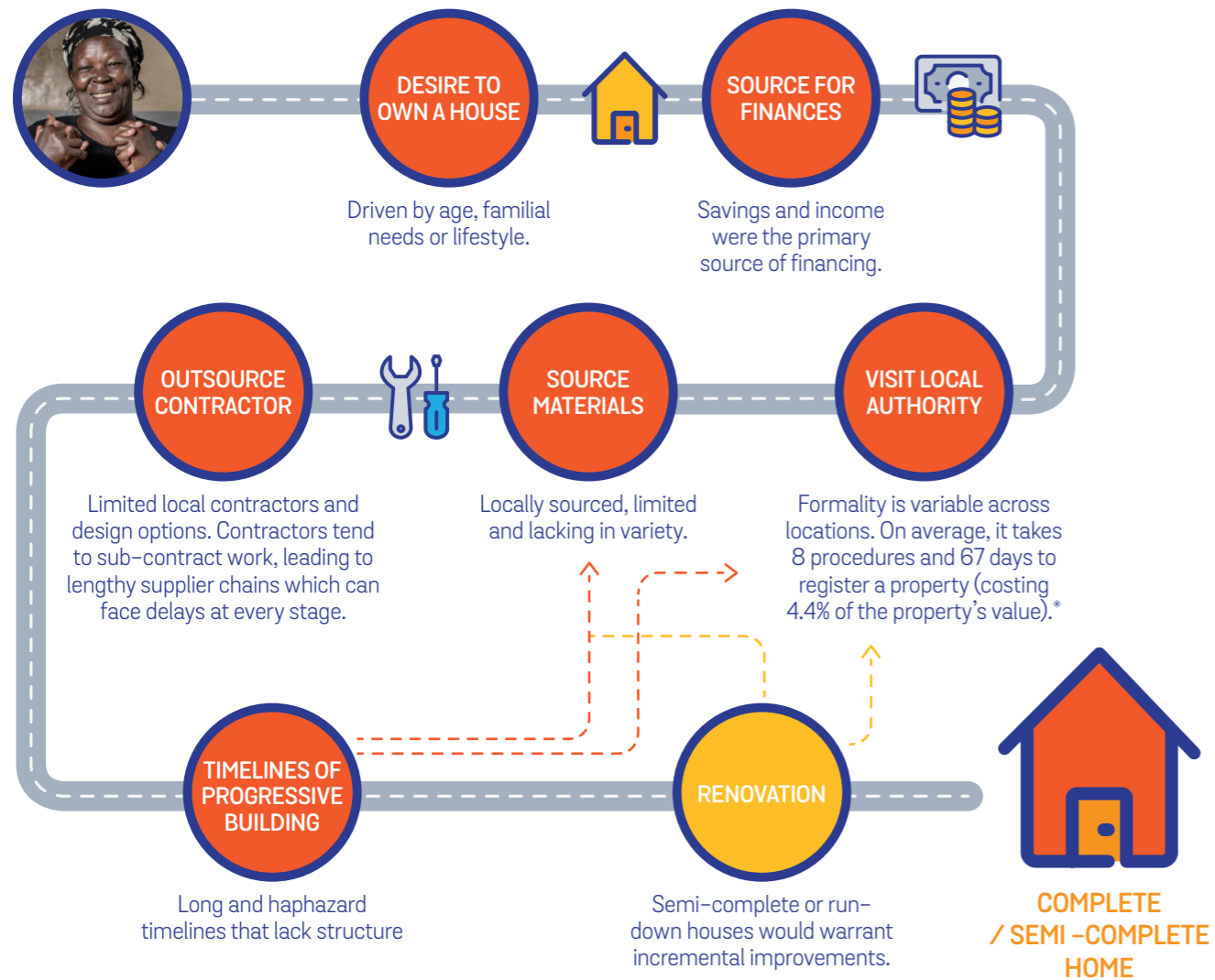


Upkeep & Building Materials

Respondents showed interest in the idea of investing in home financing to complete and renovate their homes. There was also expressed demand for newer building materials that were presently difficult to access.

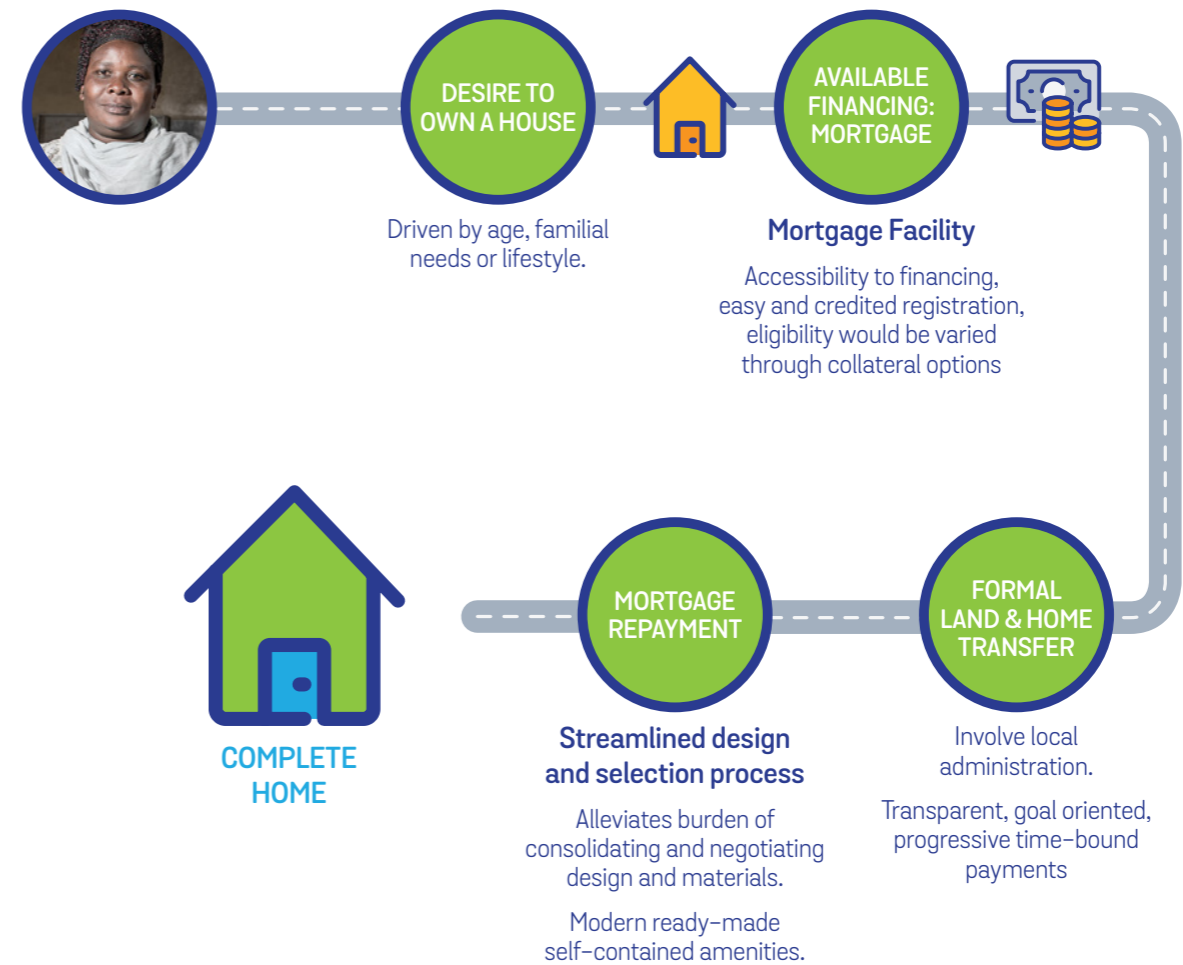
Customer Journey – Current

People opt to remain in parent’s house, remain in incomplete poorly done houses or rent a house.



Customer Journey – Preferred

The ideal customer journey would tackle all the pain points in the existing process. It caters to providing the desired modern home under a streamlined process under a minimum cost and time.



*Center for affordable housing finance in Africa: <http://housingfinanceafrica.org/countries/tanzania/>



Product Design 1

5 PRODUCT & POLICY SOLUTIONS

Support a wider range of collateral and repayments structures.

Product Design Ideas

Repayment Structures
Propose offering repayment structures that are suited to the customers Income structures.

Occupation & Income
Occupation is a noteworthy determinant of income structure and is an important defining feature of product repayment design components.

Collateral Options
Further investigations on making accessible other types of security options available to the local population.

Customer Journeys
Customer journeys in constructing homes are convoluted, with touch-points for interventions

The Potential Market Size

A mortgage product reaching 5% of formally employed could expect to achieve...

117,000 customers

5% of the 2.3 million formally employed Tanzanians*

TZS 961 BILLION market size
Urban residents pay 28.6% of their income on rent**

TZS 154 BILLION annual repayment revenue
Based on mortgage interest rates remaining at 16%**

*The National Bureau of Statistics 2015 Employment and Earnings Survey Report

**Center for affordable housing finance in Africa

1 PACKAGE 1
Seasonal Repayments



Customer Profile
OCCUPATION:
Commercial / Cash crop Farmer
COLLATERAL:
20-50 acre farm and livestock

2 PACKAGE 2
Monthly Repayments



Customer Profile
OCCUPATION:
Employed / Business owner
COLLATERAL:
Monthly income / Business equity or returns

3 PACKAGE 3
Daily/Weekly Repayments



Customer Profile
OCCUPATION:
Smallholder farmer in a savings group
COLLATERAL:
Locked group saving contributions or fundraising pool

4 PACKAGE 4
Variable Repayments



Customer Profile
OCCUPATION:
Varied- already a home owner in need of funds for completion /renovation
COLLATERAL:
Variable / Existing home / Title deed

Product Design 2

Support consolidation of convoluted supplier chains.

CURRENT CONVOLUTED CHAINS

Current house construction journeys involve several stages and a number of subcontractors. Architects may hire building contractors, who in turn source from suppliers and hire builders. At each stage of the chain, delays are commonplace due to liquidity and capacity constraints. Hence houses are built slowly, in piecemeal fashion.



POTENTIAL STREAMLINED CHAINS

Providing support for contractors to internalize more steps of the chain, and build the liquidity and resources required to reduce or eliminate delays, will have the knock-on effect of encouraging fast-builds. This in turn will encourage demand for housing credit to facilitate faster housing construction.

Product Design 3

Support progressive house construction.

People tend to build houses in a progressive manner, first constructing basic accommodation, and then implementing improvements and additions over time.

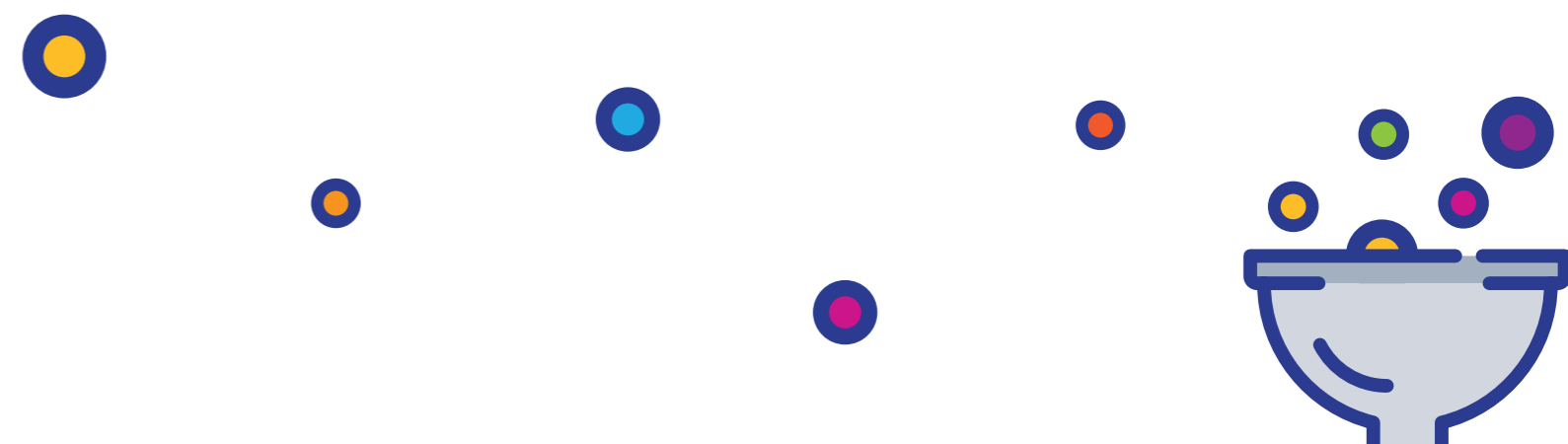


1

Partnering with design companies can formalize and improve this process, allowing staged-builds from simple housing to larger accommodation. Pre-designing the full progression can save costs along the way

2

Staged-builds provide scope for smaller credit offerings for each stage. Formalizing the process allows for a better understanding of the costs and times required for initial builds and upgrades.



Product Design 4

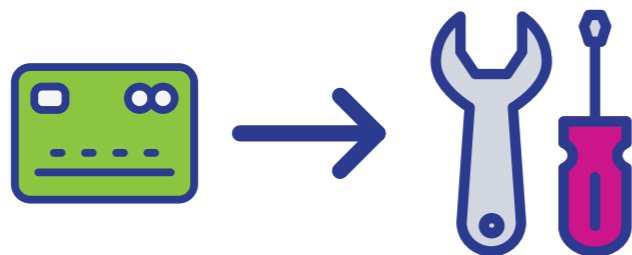
Leverage credit on secured investments.

PROBLEM:

Houses are currently built piecemeal, room-by-room or wall-by-wall. This is because it allows people to irreversibly save money towards a future goal. In effect, people use piecemeal construction as a commitment device: rather than saving until the point at which a full house or room can be built (which many people struggle with), money is sunk into an investment, even if this is not optimal behavior (this investment may depreciate, and does not get interest).

SOLUTION:

Allow people to **invest in building materials** through formal financial services. Provide people with the opportunity to purchase materials and labor in advance (for example purchasing vouchers), whilst earning interest (in-kind or cash) and preventing capital depreciation. By linking these investments to credit scores, users can be incentivized to store money in formal financial services up to the point of full house construction.



Product Design 5

Leverage credit on informal savings groups for housing

PROBLEM:

People tend to focus on savings and business income as the sources of finance for housing purchase, construction or renovation. These savings are typically through informal savings groups, which are excluded as a source of information for credit scoring algorithms.

SOLUTION:



1 Encourage and digitalize savings groups for housing

Tap into the culture of savings for housing by encouraging bespoke housing savings groups on a formal platform. Achieve this by partnering with informal savings groups to offer digital, on-platform savings solutions as part of their services to users.

2 Use these groups as a basis for credit

Incorporate data collected from digitalizing informal housing savings groups to support credit-scoring for individuals with a limited financial history. This will support the offering of appropriate digital credit solutions to currently under-served segments.



Policy Design 1

Consider credit guarantee schemes to improve affordability.



Mortgages are currently offered at **rates that are not affordable** for many customers, particularly over a longer time frame.

A mortgage **credit guarantee scheme** can support FSPs to offer credit with **affordable interest rates**, expanding the range of potential customers.





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