Document of

The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1213

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL CREDIT

IN THE AMOUNT OF SDR 41.5 MILLION
(US$60 MILLION EQUIVALENT)

TO THE

UNITED REPUBLIC OF TANZANIA

FOR A

HOUSING FINANCE PROJECT

February 2, 2015

Eastern Africa Country Cluster 1
Finance and Markets Global Practice
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of December 31, 2014)

Currency Unit = Tanzania Shillings (TZS)

TZS 1,630 = US$1

SDR 0.69 (0. 69022163) = US$1

GOVERNMENT FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
APR	Annual Percentage Rate
AWPB	Annual Work Plan and Budget
BOT	Bank of Tanzania
CAS	Country Assistance Strategy
CEO	Chief Executive Officer
CMSA	Capital Markets and Securities Authority
CRDB	Cooperative and Rural Development Bank
DFID	UK Department for International Development
DFA	Development Finance Agreement
DSE	Dar es Salaam Stock Exchange
ESMF	Environment and Social Management Framework
FDI	Foreign Direct Investment
FIL	Financial Intermediary Lending
FM	Financial Management
GDP	Gross Domestic Product
GNP	Gross National Product
GOT	Government of United Republic of Tanzania
HFP	Housing Finance Project
HMF	Housing Microfinance
HMFF	Housing Microfinance Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MFB	Microfinance Bank
MFI	Microfinance Institution

MLHHSD	Ministry of Lands, Housing and Human Settlements Development
MOF	Ministry of Finance
NHBRA	National Housing and Building Research Agency
NHC	National Housing Corporation
NPL	Non-performing Loan
PDO	Project Development Objective
PML	Primary Mortgage Lender
PMU	Project Management Unit
RPF	Resettlement Policy Framework
TA	Technical Assistance
TMRC	Tanzania Mortgage Refinance Company Limited
VAT	Value-added Tax

Vice President:	Makhtar Diop
Country Director:	Philippe Dongier
Senior Global Practice Director	Gloria M. Grandolini
Practice Manager:	Irina Astrakhan
Task Team Leader:	Yoko Doi

UNITED REPUBLIC OF TANZANIA

Housing Finance Project

CONTENTS

ADDITIONAL FINANCING DATA SHEET

United Republic of Tanzania

Housing Finance Project (P151220)

AFRICA

GFMDR

Basic Information – Parent			
Parent Project ID:	P117242	Original EA Category:	B - Partial Assessment
Current Closing Date:	31-Mar-2015	Current EA Category:	B - Partial Assessment

Basic Information – Additional Financing (AF)			
Project ID:	P151220	Additional Financing Type	Scale Up
Regional Vice President:	Makhtar Diop	EA Category:	B - Partial Assessment
Country Director:	Philippe Dongier	Expected Effectiveness Date:	25-May-2015
Senior Global Practice Director:	Gloria M. Grandolini	Expected Closing Date:	31-Mar-2018
Practice Manager/Manager:	Irina Astrakhan	Report No:	PAD1213
Team Leader(s):	Yoko Doi		

Borrower				
Organization Name	Contact	Title	Telephone	Email
United Republic of Tanzania, Ministry of Finance	NGOSHA S. MAGONYA	Commissioner, External Finance	255222113228	smagonya@gmail.com

Project Financing Data–Parent (Tanzania - Housing Finance Project-P117242) (in USD Million)							
Key Dates							
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P117242	IDA-47120	Effective	09-Mar-2010	31-Mar-2010	21-Jan-2011	31-Mar-2015	31-Mar-2017

Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed

P117242	IDA-47120	Effective	XDR	25.60	25.60	0.00	23.97	1.63	93.65

Project Financing Data –Additional Financing Housing Finance Project (P151220)

[ ] Loan [ ] Grant [ ] IDA Grant
[X] Credit [ ] Guarantee [ ] Other

Total Project Cost: 60.00	Total Bank Financing: 60.00
Financing Gap: 0.00	

Financing Source – Additional Financing (AF)	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	60.00
Total	60.00

Policy Waivers

Does the project depart from the CAS in content or in other significant respects?	No
Explanation	
Does the project require any policy waiver(s)?	No
Explanation	

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Yoko Doi	Team Leader (ADM Responsible)	Senior Financial Sector Specialist		GFMDR
Winter M. Chinamale	Procurement Specialist	Senior Procurement Specialist		GGODR
Mercy Mataro Sabai	Financial Management Specialist	Sr Financial Management Specialist		GGODR
Andrea Vasquez-Sanchez	Team Member	Sr Program Asst.		GFMDR
Christiaan Johannes Nieuwoudt	Team Member	Finance Officer		WFALA

Grace Anselmo Mayala	Team Member	Program Assistant		AFCE1
Helen Z. Shahriari	Safeguards Specialist	Sr Social Scientist		GSURR
Jane A. N. Kibbassa	Safeguards Specialist	Senior Environmental Specialist		GENDR
Mei Wang	Counsel	Senior Counsel		LEGAM
Michael Corlett	Team Member	Senior Operations Officer		GFMDR
Puja Guha	Team Member	Consultant		GFMDR
Raymond Joseph Mbishi	Team Member	Consultant		GGODR
Simon Christopher Walley	Team Member	Program Coordinator		GFMDR

Non Bank Staff

Name	Title	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
Tanzania	Dar es Salaam Region	Dar es Salaam Region			

Institutional Data

Parent (Tanzania - Housing Finance Project-P117242)

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Cross Cutting Areas

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Finance	Housing finance	100		
Total		100		

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Financial and private sector development	Other Financial Sector Development	50
Financial and private sector development	Other Private Sector Development	50
Total		100

Additional Financing Housing Finance Project (P151220)

Practice Area (Lead)

Finance & Markets

Contributing Practice Areas

Cross Cutting Areas

[ ] Climate Change

[ ] Fragile, Conflict & Violence

[ ] Gender

[ ] Jobs

[ ] Public Private Partnership

Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation	Mitigation Co-benefits

			Co-benefits %	%
Finance	Banking	50		
Finance	Microfinance	50		
Total		100		

Themes		
Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Financial and private sector development	Other Financial Sector Development	100
Total		100

I. INTRODUCTION

1. **This Project Paper seeks the approval of the Executive Directors to provide an additional credit in the amount of US$60 million equivalent** to the United Republic of Tanzania for the Housing Finance Project (HFP) (P117242, Credit Number 47120). The additional credit would fill a financing gap for the first component of the project (mortgage market development) and scale up components two (housing microfinance) and three (affordable housing supply). The additional IDA funds would help achieve sustainability of the key institutions created under the project.

2. **In addition, this Project Paper seeks approval for a restructuring** which would involve: (i) revising the Project Development Objective (PDO) for improved clarity; and (ii) revising the results framework. The closing date of the original credit is also being extended from March 31, 2015 to March 31, 2017.

3. **The original Project has made substantial progress towards achieving its development objective to develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.** The project is rated Moderately Satisfactory (MS) for both progress towards achieving the PDO and Implementation Performance. The Tanzania Mortgage Refinance Company Limited (TMRC), created under the project, is playing a transformative role in supporting the rapid growth of the mortgage industry. The Housing Microfinance Fund (HMFF), also established under the project, will provide access to housing finance to lower income microfinance clients. The establishment of the housing finance market has induced a supply-side response in terms of increased activity amongst private sector developers, with support from the National Housing Corporation (NHC). This represents a significant development for a country with a large and growing housing deficit.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING IN THE AMOUNT OF US$60 MILLION EQUIVALENT

A. Project Background

4. The Tanzania HFP is a US$40 million five-year project which aims *to develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders*. The IDA credit was approved by the Board on March 9, 2010 and became effective on January 21, 2011. The credit is 93.65 percent disbursed, and the remaining funds are fully committed.

5. The project includes three components: (1) **Development of the Mortgage Market.** This component is centered on the creation and development of the TMRC to provide medium and long-term liquidity to mortgage lenders, and the provision of technical assistance for mortgage lenders and other stakeholders; (2) **Development of Housing Microfinance.** This component examines the feasibility of setting up an HMFF to offer longer-term loans to microfinance customers for housing, and the eventual implementation of the HMFF; and (3) **Expansion of Affordable Housing Supply**. This component supports various measures to support the development of an industry of public and private developers.

B. Project Performance and Achievements

6. **Following the project's slow start, a restructuring in March 2013 led to a significant improvement in project implementation.** The project was very slow to get under way due to the need for one year of capacity building and training to establish and make TMRC a fully operational entity. Once TMRC was operational, initial demand for the mortgage refinancing facility **(Component 1)** did not materialize as expected due to banks' (primary mortgage lenders) reluctance to take on any maturity mismatches even for the brief period needed to build up a portfolio ahead of refinancing.[1] The macro environment also deteriorated significantly at the time of implementation compared to the time of project appraisal. In particular, inflation doubled during the first few years of the project and became much more volatile. The T-bill rate also increased significantly towards the end of 2011 which coincided with project effectiveness. Despite inflation returning to single digits, the T-bill rate remains high by historic standards.

Table 1 - Macro Indicators - Tanzania - 2007-2018

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (% real change pa)	7.1	7.4	6.0	7.0	6.4	6.9	7.0	7.1	7.3	6.9	7.0	7.2
Budget Balance (% GDP)	-5.5	0.0	-4.8	-6.4	-6.9	-5.0	-6.0	-5.0	-5.2	-5.5	-4.4	-3.9
Consumer Prices (% change pa;av)	7.0	10.3	12.1	6.2	12.7	16.0	7.9	6.2	8.4	7.4	7.7	7.3
Exchange Rate LCU:US$ (av)	1,245	1,196	1,320	1,409	1,572	1,583	1,600	1,647	1,732	1,812	1,903	1,993
T-Bill Rate 182 Days	10.4	12.4	6.6	6.4	17.4	13.1	15.6	15.0	-	-	-	-
GDP per Head ($ at PPP)	1,270	1,350	1,400	1,472	1,550	1,640	1,720	1,820	1,930	2,040	2,170	2,310

Source: Economist Intelligence Unit, Bank of Tanzania website – Treasury Bills Auction Results

7. To address these constraints, IDA and Government of Tanzania (GoT) agreed to restructure the project to allow TMRC to pre-finance as well as re-finance mortgage portfolios[2]. The Level II restructuring was approved on February 12, 2013. Subsequent to the restructuring, additional changes were introduced through revision of the Operations Manual. A 5 percent concessionary discount was also introduced on the financing to TMRC to be passed onto lenders. This was capped at a rate of 10 percent, and provided an incentive for lenders to enter the market and help support the initial investment outlay by starting up the mortgage product line. The restructuring and subsequent changes to the discount offered by TMRC to lenders paved the way for accelerated implementation, as more banks entered the market and tapped the pre-financing facility and converted the funding into mortgage lending, leading to a rapid growth in the mortgage industry in subsequent months.

[1] Project design had anticipated that the existence a long-term funding vehicle (TMRC) would be sufficient to encourage primary mortgage lenders (PMLs) to originate mortgages that could later be refinanced. As this did not transpire, the project was restructured to allow TMRC to prefinance PMLs to help build mortgage portfolios for refinancing.

[2] Under the pre-financing mechanism, TMRC provides loans collateralized by Treasury bonds to PMLs, allowing PMLs to develop mortgage portfolios. The key underlying risk with pre-financing is the potential for banks to use funds for purposes other than mortgage lending. This risk is well-mitigated by a set of strict procedures, including requiring banks to convert funds to mortgage lending at a conversion rate of 33 percent per year, penalties for non-compliance, and a robust monitoring system.

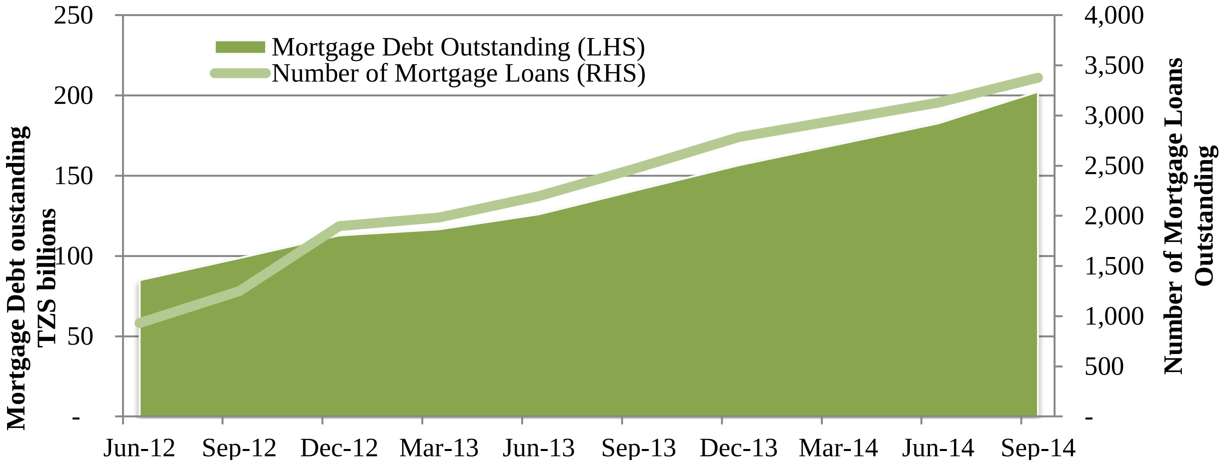
8. **TMRC has played a critical role in supporting the market's growth.** Following its establishment on January 29, 2010, as of August 2014 TMRC has 12 shareholders with total paid-in share capital of TZS 14.5 billion (US$8.8 million). TMRC is now fully capitalized and profitable. A number of additional banks and mortgage finance companies are currently considering membership in TMRC. All 12 TMRC shareholders either already have a mortgage product or are in the process of developing one. To date, TMRC has executed 12 transactions with banks (pre-financing and refinancing) in the amount of TZS 34.1 billion[3] (US$20.7 million), most of which have been executed in the 18 months since project restructuring. Although TMRC refinances only a limited portion of the total mortgage market outstanding (17 percent as of September 30, 2014), its presence in the market provides banks with a degree of comfort to enter into term finance lending as they know that long-term funds are available should they be needed. This role helps provide stability to the market.

9. **The mortgage market in Tanzania has grown rapidly in recent years both in number of loans and balances outstanding**. It started from a low base, but is growing consistently at an annual rate of over 40 percent. Most recent data up to end September 2014, which were collected from Tanzanian banks by the Bank of Tanzania show that total lending by the banking sector for the purposes of residential housing exceeded TZS 202 billion, equivalent to over US$122.6 million. This represents a 43 percent increase on the amount outstanding 12 months ago. The total number of loans also grew rapidly, from 2,482 as of September 2013 to 3,376 loans as of the end of September 2014.

10. **As of the end of September 2014, mortgage loans were offered by 19 different banks, compared to only 8 in 2010**. More lenders are expected to come to market in 2015 including a new non-bank specialized mortgage institution, supported in part by an IFC investment[4]. This shift towards a market that is now more 'investable' compared to five years ago demonstrates the progress that has been achieved. The mortgage market is dominated currently by three large lenders, who among them command over half the mortgage market. New entrants are launching products, and as competition increases, it is likely that other Tanzanian financial institutions will make their presence felt in this sector.

[3] Only banks that have developed mortgage products have received pre-financing.
[4] IFC approved on January 8, 2015 an investment with a local partner for the establishment of a specialized mortgage lender.

Figure 1 - Tanzania Mortgage Market -TZS Outstanding and Number of Loans



Source: Bank of Tanzania

11. **There is also increased competition in the market.** Mortgage debt advanced by the top three lenders declined to 53 percent of the total outstanding mortgage debt, down from 67 percent reported in December 2013, indicating an increasingly competitive market. Cooperative and Rural Development Bank (CRDB), one of the largest banks in Tanzania, entered the mortgage market less than a year ago, and has since built a portfolio of TZS 9.4 billion (US$5.7 million), equivalent to a 5 percent market share. It expects further growth to come as it provides finance to home buyers under the NHC program. Mortgage interest rates remain high, typically varying between 17 and 21 percent, although some lenders are being more aggressive in their pricing offering a market leading rates of 16 percent.

12. **After experiencing delays in its initial setup, the HMFF (Component 2) is expected to begin lending operations in 2015.** HMFF has been operationalized and is finalizing the loan terms with eligible microfinance lenders. Following the legal establishment of HMFF, the master loan agreement, which stipulates conditions under which the Microfinance Institutions (MFIs) and other eligible financial institutions can access funds under the HMFF, has been under discussion. Based on this feedback, the master loan agreement is undergoing revisions to ensure that terms are acceptable to the financial institutions and the Association. There is a strong pipeline for HMFF finance and a large appetite from the regulated MFls and other financial institutions to receive the limited amount of HMFF finance.

13. **A housing microfinance feasibility study found a clear need for microfinance products and funding.** Prior to the establishment of HMFF, this feasibility was conducted and a survey found that 41 percent of respondents intend to get a loan to finance construction/improvement. There is a general consensus in the market that consumer loans offered by commercial banks are being diverted into housing investments. However, these types of products do not have the appropriate features -for example they have very short maturities. And, as they are offered only to those who have regular salaries, these consumer loans exclude a large portion of the potential market. While some institutions offer microfinance products, the

supply is very limited due to lack of funding, whereas potential demand could exceed US$400 million[5].

14. **The rationale for establishing HMFF derives from the need for an affordable, viable and sustainable mechanism to provide finance for those with lower incomes who may lack access to traditional mortgage finance.** This can best be achieved through the establishment of an efficient funding platform[6]. Current financing rates available to the target population through existing microfinance loans are priced in excess of 50 percent, or even higher when adjusting to the full annual percentage rate, which includes fees and charges. A system that allows lenders to recover their operational costs, cost of equity, and risk premium is fully compatible with significantly lowering interest rates as well as longer loan tenures which would also have a marked impact on affordability and allow crowding in of other sources of finance from private sources, nongovernmental organizations and the donor community.

15. **Beyond the long-term financing offered by TMRC, capacity building provided by the project is delivering critical support for the development of the housing finance market.** The project is delivering a comprehensive capacity building program on the mortgage market in Tanzania targeting service providers, financial intermediaries, market professionals, policy makers, regulators, government authorities, the judiciary and the general public. The training focuses on all the key elements of mortgage lending including loan underwriting, collateral processing, collections, loan administration, customer outreach and general financial literacy. The training has been well received by banks, but should continue beyond the original closing date to have a lasting impact.

16. The project has also supported the development of a private developer industry (Component 3: Affordable Housing Supply Development). This small but important component has provided a platform for encouraging market-based solutions to address the large and growing housing deficit in Tanzania. It has supported analytical work and technical assistance, as well as dialogue with principal players in the housing market. The project has contributed to strong results, including the transformation of the NHC into a master developer as initially contemplated at the outset of the project. The role of a 'master developer' is to prepare land, devise an overall plan and create a conducive investment environment for private real estate developers. This component was included as part of NHC's strategic review; and is now being implemented.

17. **As the mortgage market has grown and matured so has the regulatory and enabling environment**. The project has supported a number of initiatives including quarterly collection of mortgage market data for open publication and the regulatory framework for oversight of TMRC operations by the Bank of Tanzania. More recently the importance and special risk character of

[5] This refers however to the potential demand. The real figure could be smaller, given that not every household that intends to receive financing would also qualify for such. Independent of the accuracy level, the level of unsatisfied demand for housing microfinance in Tanzania is considered to be very large.

[6] A negotiated interest rate will be determined based on the competitive proposals received from lenders seeking financing from HMFF. The proposals will be evaluated based on rates and overall affordability of the loan products to end users, together with the lenders' broader commitment to serving and providing access to housing finance for lower income households.

mortgage lending as an asset class was recognized by a reduction in the risk weighting from 100 percent to 50 percent. This is indicative of the lower risk associated with secured lending and will help in allocating capital to this asset class. The enabling environment has also improved with new credit bureaus beginning operations, providing both negative and positive data. Lastly the Bank of Tanzania has passed a regulatory framework for non-bank mortgage finance companies.

C. Lessons from Original Project/Others

18. **The project design has been informed by the experiences and lessons learned in a number of similar operations including the housing finance projects in Egypt, India and Jordan.** The lesson learned from Jordan and similar operations such as Egypt has been the importance of creating the linkage with the capital market to ensure sustainability. Project design needs to balance the incentives for different stakeholders to ensure that the mortgage refinance company (in this case the TMRC) raises its own funds. Based on the project in Egypt where full sustainability did not occur as the Egyptian Mortgage Refinance Company was not able to issue a corporate bond, some design changes were incorporated into TMRC to incentivize bond issuance. The dramatic change in the macro environment, however, has made bond issuance very difficult to achieve given the much higher interest rate levels. The additional financing aims to provide a smooth transition phase towards market based bond financing by allowing blending of market rates with IDA financing; it will also provide the necessary transition period to allow for TMRC to attain full issuance requirements by the Capital Markets and Securities Authority (CMSA) in Tanzania.

D. Rationale for Additional Financing

19. **Despite the project's achievements, the additional financing is critical to achieving the sustainability of key institutions supporting the development of the housing finance market.** While PDO indicators related to TMRC are on track to be achieved, servicing its current pipeline lending would result in exhausting its available funds within the next six months.

20. **Sustaining and deepening TMRC's support to the mortgage market would require substantial funding in line with the market's rapid growth.** Assuming the mortgage market continues to grow rapidly, even at a slightly lower rate of 35 percent per annum, the mortgage market would increase in size to TZS 297 billion (US$171 million) in 2015 and up to as much as TZS 730 billion (US$386 million) by 2018. This growth implies a significant increase in TMRC activity with TZS 32 billion (US$19 million) of prefinance and refinance operations in 2015, with similar amounts in 2016 and 2017 funded through a mix of IDA resources and bond financing.

21. **While TMRC has achieved profitability, it has yet to achieve the financial independence necessary to stimulate the market's continued growth.** The original project envisioned that TMRC would tap capital markets in year three (2012). However, funding through a bond issuance was not possible at that time and remains a difficult option in the near term due to high interest rates. In light of this, the proposed approach is for the additional

financing to provide support for a gradual shift to market based rates over the next three years. The TMRC currently provides loans at 11.5 percent to the participating banks and receives financing from the Bank of Tanzania (BOT) at 10 percent, on-lent from the IDA credit. In comparison, the government bonds with comparable maturities currently yield 13.84 percent; and the TMRC would need to pay interest rates slightly higher than the government bonds in order to access funds from the market. If the TMRC would refinance at the market clearing levels, its financing costs may come close to the mortgage interest rates charged to some end-borrowers by the banks, leaving little or no spreads for the TMRC or the participating banks.

22. There are also a number of regulatory issues that have been discussed with CMSA on the requirements for a track record of profitability and a listing on the Dar es Salaam Stock Exchange. If TMRC is willing to issue the bond before it meets all requirements, CMSA recommends the extension of a government guarantee to TMRC to help provide comfort to investors. These requirements are expected to be met over the next few years (TMRC has been profitable for only one year). While the government has indicated that it is unable to provide a guarantee in the short term due to its overall debt management strategy, it is committed to doing so in the future in order to contribute to TMRCs financial sustainability.

23. **Despite the currently prevailing unfavorable market conditions, a bond issuance (or alternative market financing) remains essential to TMRC's sustainability, and the TMRC is committed to pursuing it.** The proposed way forward in the absence of a bond issuance in the near future is twofold: (i) to recycle existing funds falling due, in particular from the pre-financing loans;[7] and (ii) to extend further financing to TMRC through the IDA credit program. The additional IDA funding will provide TMRC with the necessary bridge financing to continue operations and support market development for about two years until a more sustainable market solution is identified. Any stagnant period for TMRC, where it runs short of funds, would seriously damage its long-term credibility and all of the work achieved to date. Equal amounts of IDA funding would be disbursed to TMRC through the Bank of Tanzania in 2016 and 2017. The pricing in 2016 would remain on the same basis as it was previously in the project.

24. To incentivize the issuance of a bond, the project will introduce a disbursement mechanism that would apply to US$10 million, or 25 percent of the total funds allocated to support TMRC. This mechanism would allow for the alignment of project objectives with the disbursement of funds. Given that the role of the IDA funds in the additional financing is to provide a pricing cushion as TMRC moves to full market rates, IDA disbursements will be directly linked with bond issuance on a 1:1 basis. This disbursement will be made in line with bond issuance. This could occur gradually over the project period if a number of small issuances are made or could happen in larger tranches, depending on the volume and timing of issuances.

25. **In 2016, it is anticipated that TMRC will meet the CMSA's requirements for a bond issuance and will start to raise its own funding.** On the assumption that the interest rate environment remains similar to that at end 2014, it is proposed that TMRC offers lenders a blended refinance rate. The IDA funding would be at around 10.0 percent and assuming a slight

[7] The recycling of the funds will allow the current balance sheet to be maintained with additional IDA financing allowing for the growth in TMRC operations. Recycling will also allow for ongoing blending of IDA resources with bond funding, beyond the close of the project.

easing of current interest rates, the cost of raising a bond for TMRC would be 13.18 percent. Once TMRCs 1.50 percent margin is added and the funds blended, this would give a final rate to lenders of 13.41 percent, which is higher than it would be from IDA alone but lower than just pure bond market funding. This blended rate will allow a tapering of the IDA funding toward full market rates.

26. **The additional financing would support HMFF through the pilot phase, after which donor resources could be mobilized.** With HMFF now established, there is an urgent need to provide training and capacity building to MFls and other financial institutions that offer housing microfinance products. The project has envisaged a technical assistance program that would seek to improve current skills and assist in the development and administration of HMF products based on the best practices existing in other countries with more developed housing microfinance sector. Upon completion of the pilot phase, HMFF would be well positioned to receive additional donor funds.

27. **The project would also continue to support building the private developer industry (Affordable Housing Supply Development).** NHC has ambitious plans for a number of satellite cities around the country including in and around Arusha, Mwanza and Dar es Salaam. Discussions are under way with a number of investors and with local developers, notably through a real estate event held in June 2014 to explore opportunities in the market supported by NHC. The other key area of support under this component has been for the National Housing and Building Research Agency (NHBRA), which has benefited from a number of grants allowing it to expand its research into local affordable building materials, a sensitization program on some of the products it has developed, and a review of the research it has produced over the past few years. New building technologies can be a powerful tool for lowering the cost of housing. As a follow-up to an operational review conducted during the original project, the additional financing will support implementation of recommendations designed to enable NHBRA to effectively fulfill its mandate of research and dissemination of low cost building materials and technologies.

28. **The additional financing can support further developments to help expand the supply of affordable housing.** The original project has made important contributions to improving the regulatory environment, including development of regulatory frameworks for mortgages, and the additional financing will continue to address remaining constraints. The cost of finance is a major constraint to affordability but other costs associated with buying a home can add significant expenses. These include the value-added tax (VAT) on housing, which is levied at 18 percent, and several costs related to stamp duties and other legal transaction costs. The final hurdle is the need for a 20 percent down payment on a property, in compliance with BoT requirements in the mortgage regulations on loan to value; this requirement creates a major affordability barrier as purchasers often have limited available savings. The additional financing will fund a study on affordability (Review Options for Moving Mortgages down-market). This remains an important next step in exploring how housing can be made more affordable for those on lower incomes. In particular, a guarantee scheme could be considered as well as exemption of VAT on new housing below a certain threshold.

29. **The proposed additional financing is consistent with the Country Assistance Strategy (CAS) FY12-FY15 and CAS Progress Report (Report No. 80313-TZ).** The project supports the first objective in the CAS, which focuses on promotion of inclusive and sustainable private sector-led growth, including an improved business environment and financial intermediation. The project will contribute to the First Strategic Cluster (Productive Investments for Growth of Labor-Intensive Industries and Job Creation) of the CAS Progress Report, by strengthening the nascent mortgage market and creating much needed jobs in construction, housing improvement, finance, and other related sectors. In this manner, the project also supports the urbanization agenda (the proposed Dar es Salaam Metropolitan Development Project and Urbanization Review), which is seeking to strengthen competitiveness and job creation in urban areas by extending urban transport infrastructure, increasing access to urban water supply and sanitation, and accelerating housing development and associated growth in the construction industry. The project is also expected to benefit from land administration reforms supported under the Private Sector Competitiveness Project, which should increase the availability of residential licenses and titles and thereby increase the supply of mortgagable properties.

30. **The project is consistent with the Bank's twin goals of ending absolute poverty and boosting shared prosperity.**

- *Poverty Reduction* – In most emerging economies, housing represents the main source of wealth for the poor. Without housing finance solutions, urban poor are unable to access proper housing. Rapid urbanization is creating housing shortages resulting in increasing numbers of slum dwellers. UN-Habitat estimates that 3 billion people will need new housing and basic urban infrastructure by 2030. This can be accomplished only by leveraging private markets and working with governments on policy reforms. The project targets include both middle income households and the more vulnerable lower income groups.

- *Shared Prosperity* –Housing Finance development provides economic stimulus across the economy (leverage on growth, investment) through the construction value chain. Housing is a key generator of jobs. For example, McKinsey & Co. calculated that building two million affordable houses in India could create up to three million jobs in construction and 26 million in related sectors. Well-developed and regulated housing finance markets also represent a large share of a sustainable financial sector.

31. **The vast majority of Tanzania's population remains on very modest incomes that would not allow for the purchase of a house with a mortgage loan**. This project aims to partially address this constraint through the Housing Microfinance Component which targets those on lower incomes, possibly employed in the informal sector and maybe looking at incremental construction as opposed to outright purchase. Current levels of interest rates in the microfinance sector are extremely high, averaging over 5 percent monthly or 80 percent annually. Access to finance is limited, and the only other option is resorting to friends and family or money lenders, which may be more expensive and shorter term. The HMFF will allow for a significant reduction in interest rates and an extension in loan terms. This double effect could result in the net monthly cost of a loan dropping by more than half for those on lower incomes. This will also create a substitution effect whereby funds previously spent on housing could be spent in other areas, with a resulting net welfare gain for households.

32. **A review of the literature[8] on the impact of low income housing finds that it has a lower import component and is more labor intensive than middle or high income housing.** Thus, benefits to the economy tend to be inversely proportional to housing cost meaning that low cost housing is more beneficial. Similarly, home improvement entails the sale of building materials and the employment of low-skilled and medium-skilled workers. It has been shown that in Kenya, for example, the labor to materials ratio is 45:55 for low-income housing whereas it is 30:70 for high-income housing[9]. In most developing countries, the informal sector is largely responsible for the provision of shelter in low-income houses but, because very little hard data exist, it is difficult to estimate its contribution to the construction sector and to economic development. Research has shown that housing construction in low-income neighborhoods in the developing world is a stimulus to creation of small businesses as much housing construction is done by small firms, largely in the informal sector[10].

33. **In addition, studies[11] have found that between a tenth and a quarter of dwellings in developing countries' cities have an enterprise on the premises.** As premises are either free, or accounted as such in the business, overheads are kept very low, and the householders face a lower marginal capital investment for setting up operation at home than in setting it up elsewhere; however, most of these activities are likely to yield the lowest incomes because of easiest entry, least skills and lowest capital intensity. Through the microfinance project, improvement to the houses could affect the living conditions and income of low income households. The microfinance component also has a gender aspect, as the majority of HMF borrowers and households are headed by women or have women as the principal income earner; improving the home expands the hours in the day they can work, their ability to mind children, and their health (clean water, safe toilets).

III. PROPOSED CHANGES

Summary of Proposed Changes	
The proposed additional financing will fill a financing gap for Component 1 (Development of the Mortgage Market) due to factors outside the control of the project, and scale up components two (Development of Housing Microfinance) and three (Expansion of Affordable Housing Supply). In addition, a project restructuring is proposed to refine the PDO and revise the results framework. The closing date will be extended from March 31, 2015 to March 31, 2017.	
Change in Implementing Agency	Yes [ ] No [X]
Change in Project's Development Objectives	Yes [X] No [ ]
Change in Results Framework	Yes [X] No [ ]

8 Erbas and Nothaft (2002)
9 Syagga, 1989
10 Tibaijuka, A. K. (2009) Building Prosperity: Housing and Economic Development. London: Earthscan
11 Strassmann (1986)

Change in Safeguard Policies Triggered	Yes [ ] No [X]
Change of EA category	Yes [ ] No [X]
Other Changes to Safeguards	Yes [ ] No [X]
Change in Legal Covenants	Yes [ ] No [X]
Change in Loan Closing Date(s)	Yes [X] No [ ]
Cancellations Proposed	Yes [ ] No [X]
Change in Disbursement Arrangements	Yes [X] No [ ]
Reallocation between Disbursement Categories	Yes [ ] No [X]
Change in Disbursement Estimates	Yes [X] No [ ]
Change to Components and Cost	Yes [X] No [ ]
Change in Institutional Arrangements	Yes [ ] No [X]
Change in Financial Management	Yes [X] No [ ]
Change in Procurement	Yes [ ] No [X]
Change in Implementation Schedule	Yes [X] No [ ]
Other Change(s)	Yes [ ] No [X]

Development Objective/Results

Project's Development Objectives

Original PDO

The Project Development Objective (PDO) is to develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.

Current PDO

To develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.

Change in Project's Development Objectives

Explanation:

The new PDO more realistically measures the impact of the project, as the project alone cannot be expected to develop the housing finance market. Further, the revision deletes "mortgage" in order to capture the broader housing finance market, which comprises both mortgages and housing microfinance.

Proposed New PDO - Additional Financing (AF)

The revised PDO is as follows: To facilitate the development of the housing finance market through the provision of medium and long-term liquidity to lenders.

Change in Results Framework

Explanation:

Of the original four PDO level indicators, two (mortgage debt outstanding as a % of GDP and mortgage interest rate) will be dropped, as they are affected by factors outside of the control of the project. The two PDO indicators related to Number of loans refinanced and prefinanced will be consolidated into one indicator: "Outstanding volume of eligible loans financed by TMRC". This indicator measures the volume of refinanced loans in addition to the volume of prefinancing which is converted into loans that meet the eligibility criteria for refinancing. This indicator would more precisely measure TMRC's impact. An additional PDO level indicator (Number of financial institutions offering mortgage product) will be added. This indicator shows the broader impact that the existence of the liquidity facility has had on spurring banks to enter the mortgage market. While TMRC has only 12 member banks, compared to 19 currently offering mortgages, its role as a liquidity facility together with the project's work to support mortgage market development, including adopting a framework for regulating housing mortgage finance, has paved the way for banks to enter to market. Finally, an indicator will be added to measure bond issuance of TMRC, a key measure of its sustainability.

At the intermediate level, the indicator "Number of institutions pre-financed by TMRC" will be dropped, as the prefinancing was envisioned as a short-term solution to stimulate banks to build mortgage lending and will be gradually phased out. The indicator "Number of new housing units approved for construction" will be dropped due to attribution problems, although it is noted that the project has indirectly contributed to increasing the affordable housing supply, including the transformation of NHC into a role as master developer and other activities.

Compliance

Covenants - Additional Financing (Housing Finance Project - P151220)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
				☐		

Conditions

Source Of Fund	Name	Type
IDA	FA Article V. 5.01.a	Effectiveness

Description of Condition

The Subsidiary Agreement has been executed between the Recipient and the Project Implementing Entity under terms and conditions acceptable to the Association.

Source Of Fund	Name	Type
IDA	FA Article V. 5.01.b	Effectiveness

Description of Condition

The Project Implementing Entity and the Tanzania Mortgage Refinancing Company Limited have entered into a Sub-financing Agreement acceptable to the Association.

Source Of Fund	Name	Type
IDA	FA Section IV. B. Withdrawal Conditions, Withdrawal Period, para 1 (b)	Disbursement

Description of Condition

Any payments under Category (1)(b), unless and until evidence satisfactory to the Association is furnished to the Association confirming that the Operations Manual has been updated to include detailed disbursement arrangements, acceptable to the Association, for disbursing the Credit's proceeds under said Category (1)(b).

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Low
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

Finance

Loan Closing Date - Additional Financing (Housing Finance Project - P151220)

Source of Funds	Proposed Additional Financing Loan Closing Date
IDA recommitted as a Credit	31-Mar-2018

Loan Closing Date(s) - Parent (Tanzania - Housing Finance Project - P117242)

Explanation:

The original loan closing date will be extended.

Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
IDA-47120	Effective	31-Dec-2015	31-Mar-2015	31-Mar-2017	

Change in Disbursement Arrangements

Explanation: Disbursement Arrangements: The disbursement arrangement for fund flow currently in place under the original credit is deemed adequate, acceptable and will continue to be used. The only change in the disbursement arrangements is with regard to the introduction of a mechanism for the disbursement of mortgage financing against the issuance of bonds per the additional withdrawal instructions for disbursement.
Change in Disbursement Estimates (including all sources of Financing)
Explanation: The original credit is 93.65 percent disbursed and is expected to be fully disbursed by March 31, 2017 on account of delays in disbursement for Component 2 (Housing Microfinance) and based on TMRC disbursement projections.

Expected Disbursements (in US$ million)(including all Sources of Financing)

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Annual	5.00	20.00	21.00	14.00						
Cumulative	5.00	25.00	46.00	60.00						

Allocations - Additional Financing (Housing Finance Project - P151220)

Source of Fund	Currency	Category of Expenditure	Allocation	Disbursement %(Type Total)
			Proposed	Proposed
IDA	XDR	1 (a) Mortgage Prefinancing and Refinancing, Goods, Consultants, Training and Workshops for Part 1 of the Project	21,300,000.00	100.00
IDA	XDR	1 (b) Mortgage Prefinancing and Refinancing for Part 1 of the Project	7,000,000.00	100.00
		(2) Housing Finance Loans, Goods, Consultants, Training and Workshops for Part 2 of the Project	10,700,000.00	100.00
		(3) Goods, Consultants, Training and Workshops for Part 3 of the Project	2,500,000.00	0.00

		Total:	41,500,000.00	

Components

Change to Components and Cost

Explanation:

The additional financing of US$60 million equivalent will be allocated across the three existing components, and will also cover Project Management costs. Component 1 will include US$40 million to be extended to TMRC so that it can continue to provide a reliable source of longer-term funds to mortgage lenders. A key aspect of this component will be continued assistance in securing a long term funding source for TMRC, including bond issuance or alternative financing, building on the ongoing technical assistance program. The project will support a gradual move from IDA funded financing to full market priced bond financing, by blending the two sources of funding. In order to encourage TMRC to become financially sustainable by project closing, a disbursement mechanism will be introduced whereby TMRC would have access to US$10 million to be allocated on a 1:1 basis following bond issuance. Component 1 will also support technical assistance activities in the amount of US$800,000 consistent with the component's objective of contributing to the development of the mortgage market, including (i) hiring a resident accountant for TMRC bond issuance; (ii) review options for moving mortgages down-market; and (iii) housing finance education (which would continue to support consumer financial literacy and dissemination activities throughout the AF period).

Component 2 will include US$15 million to scale up the HMFF pilot as well as the following technical assistance activities amounting to US$500,000: (i) Training and capacity building on HMF; (ii) Supply of IT Equipment for the HMFF. Component 3 will consist entirely of technical assistance activities amounting to US$2.3 million including: (i) feasibility study for establishing options for enhancing operational efficiency and effectiveness of real estate professions in Tanzania; (ii) guidelines and standards for low income housing; (iii) setting up a Housing Information Center; (iv) ICT resources requirements for Watumishi Company Limited Design Team; and (v) Strengthening the National Housing and Building Research Agency.

Project management fees and reimbursable expenses will amount to US$1.1 million equivalent and will cover a Mortgage Finance Specialist, Finance Management Specialist and the Procurement Specialist for three years. These consultants are working for the HFP on a full time basis. In addition, US$300,000 will be allocated to support continuous professional education and capacity building of the staff under the Technical Assistance Program Coordination which houses the Project Management Unit.

Current Component Name	Proposed Component Name	Current Cost (US$M)	Proposed Cost (US$M)	Action
Development of the Mortgage Market	Development of the Mortgage Market	33.00	73.80	Revised
Development of Housing	Development of Housing	5.00	20.50	Revised

Microfinance	Microfinance			
Expansion of Affordable Housing Supply	Expansion of Affordable Housing Supply	2.00	4.30	Revised
	Project Management	0.00	1.40	New
	Total:	40.00	100.00	

Other Change(s)

Implementing Agency Name	Type	Action
BANK OF TANZANIA	Implementing Agency	No Change

Change in Financial Management

Explanation:

Financial Management: The financial management assessment of the additional finance is based on the last financial management implementation support mission for the main credit, which indicated satisfactory on the overall project financial management arrangements. The project is in compliance with the required financial covenants in terms of maintaining satisfactory financial management arrangements, submission of quarterly IFRs and annual audit reports. The last two project audit reports received clean opinions and there is no overdue audit report.

The financial management arrangements meet the Bank’s minimum requirements under OP/BP10.00. The financial management arrangements are adequate to provide, with reasonable assurance, accurate and timely information on the status of the project as required by IDA, and will continue to be used. The only change regarding the disbursement arrangements is the introduction of a conditional disbursement mechanism for the disbursement of mortgage financing against the issuance of bonds as per the additional withdrawal instructions for disbursement.

Procurement: There are no changes proposed in carrying out procurement activities; the BOT’s Project Management Unit in collaboration with the Procurement Department will continue to be responsible for carrying out procurement activities. Any new procurement under the additional financing would be carried out in accordance with the World Bank’s “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers” dated January 2011 (revised July 2014); and “Guidelines: Selection and Employment of Consultants under IBRD and IDA Credits & Grants by World Bank Borrowers” dated January 2011 (revised July 2014); Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011; and the provisions stipulated in the Legal Agreement.

Change in Implementation Schedule

Explanation:

The Additional financing includes a three year project extension.

Appraisal Summary

Economic and Financial Analysis

Explanation:

The economic analysis of this Project is built as a financial analysis with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the Project. The costs and benefits that are expected to accrue from Components 1 (Development of the Mortgage Market) and 2 (Development of Housing Microfinance) have been estimated. The net present value (NPV) and the economic rate of return (ERR) for the investments in these components were calculated. Details on these calculations are provided in Annex II. The economic analysis of Component 3 (Expansion of Affordable Housing Supply) presents a special challenge due to the indirect relationship between the capacity building reforms supported under the Project and the stream of benefits that these are expected to trigger. In light of this, a literature review has been provided on the positive effects of housing investments on growth.

Overall Project NPV is estimated at US$6.7 million at a 10 percent discount rate (with costs and benefits based on only components 1 and 2), with a 23 percent ERR. These valuations are calculated based on scenario analyses. Discount rates of ten and twelve percent are used for different scenarios in line with World Bank guidelines. Further details on these are provided in Annex II.

The increase in the size of the mortgage market will help enable new housing projects which will in turn result in new job creation. Impact of this investment has been estimated with a range of scenarios. The ERR of this Component is expected to be 37 percent, and the NPV is expected to be about US$2.6 million with a discount rate of 10 percent.

Development of Housing Microfinance

The Project will provide seed capital to the HMFF. As a result, households will be able to access home loans under more favorable terms. In addition, this component will vastly increase overall access to loans. The impact on households has been estimated as part of the economic analyses with a number of different scenarios.

The ERR of this sub-component is expected to be 18 percent, and the NPV is expected to be about US$2.8 million with a discount rate of 10 percent.

Activities under component 3 are expected to result in improvements in the capacity of the housing development sector, thereby increasing the number of new developments and resulting in increased business income and job creation, a relationship established in previous empirical studies (listed in Annex II).

Public Rationale

As discussed above, the prevailing high interest rate environment in Tanzania has created a critical constraint within the housing sector. There is therefore a need for public intervention to increase access to mortgages and housing microfinance loans. Under this additional financing, the Government of Tanzania, recognizing that increasing access to housing finance is a priority, will provide funding to autonomous institutions (TMRC and HMFF) which will in turn facilitate access to housing finance in a sustainable manner.

World Bank's value added

The World Bank has played a leading role in the development of the housing finance sector in Tanzania. The World Bank's value added is also as a channel for global expertise in the sector overall and broader access to finance programs, particularly related to the capacity building, coordination support, and technical expertise that are required for such programs to have a successful impact on local populations.

Technical Analysis

Explanation:

The rationale for the technical design is based on the need to find a relatively simple mechanism which can link long term resources to housing investment in a sustainable way. This applies both to the mortgage market and the housing micro finance market. Tables 4 and 7 in Annex II (Table 4 - TMRC Balance Sheet 2012-2018 and Table 7 Tanzania Mortgage Market 2012-2018) provide some of the detail on how the TMRC will develop going forward and the role it can play in catalyzing the mortgage market. Overall the mortgage market is expected to continue its steady growth trajectory, expanding at 35 percent per annum. TMRC will aim to refinance around a quarter of this, which is an increase on the current 15 percent it covers. The mortgage market although growing rapidly still remains small relative to the overall size of the economy.

The key contribution of the additional financing is in providing a bridge towards TMRC raising its own financing at market rates in the bond market. Table 4 in Annex II shows how between 2016 and 2018, TMRC will gradually start using the bond market to finance its lending. The initial bond issue in 2016 would amount to TZS 9 billion (around US$ 5 million). However the full cost of these bonds would not be fully passed onto TMRC borrowing members, as this funding would be blended with IDA resources to provide a cushioned, gradual move to full market rates. End users will inevitably see a rise in mortgage rates to the end user, as end user rates adjust to the reality of the funding cost but critically, there will also be much greater availability than the 2,000 loans currently outstanding. The long term sustainability of the model will be ensured once TMRC is able to raise its own funding and provide refinancing and prefinancing independently of IDA. This is expected to occur by the end of the project in 2018, with some residual IDA funding gradually diminishing as an overall proportion of the balance sheet as TMRC continues to grow. See Annex II for further information.

Appropriateness of project technical design to the borrower's needs – Tanzania has limited fiscal resources and is running a budget deficit of over 5 percent, the proposed solution could not rely on an ongoing budget allocation to support housing programs. The design of the project is to be majority self-financing, as the repayment of IDA will be made by the project itself, thereby minimizing any long term burden on public resources. TMRC will be responsible for repaying the financing received under the project under the loan agreements it has with the Bank of Tanzania. In turn, the Bank of Tanzania will repay to the government and ultimately IDA. The Bank of Tanzania will continue to be responsible for covering the exchange rate risk between the IDA dollar loan and the Tanzania shilling disbursement to TMRC.

Conformity with relevant international standards - The overall project design includes a number of elements which have been developed in other jurisdictions, but also includes some solutions which are more tailored to the needs of Tanzania. The mortgage liquidity facility model is a common one in developing markets and this project has built on that model. There are limited examples in Sub-Saharan Africa (the West Africa Monetary Union Area, South Africa and more recently, Nigeria are the only other examples). The Housing Micro finance Fund is more innovative without direct precedents for housing finance although other wholesale apex institutions do exist for microfinance or SME lending for example. A key building block for developing the mortgage market has been to have a sound regulatory base for the work, the project team worked to create new regulations for mortgage refinance companies and also prudential standards for mortgage lending more generally. These standards included such restrictions as a maximum loan-to-value of 80 percent and a maximum total debt servicing burden of 40 percent of income. Both of these conform to international standards as recommended by both the International Monetary Fund (IMF) and the Financial Stability Board. These standards were promulgated in the wake of the sub-prime crisis in the United States.

As a financial intermediary loan, the project has been designed to adhere to OP 10.00 Financial Intermediary Lending and has endeavored to ensure that participating financial institutions are well managed, with an adequate corporate governance structure, sound financial performance indicators, and adequate technical and institutional capacity to operate at competitive market conditions. Continuous compliance with eligibility criteria will be monitored and ensured throughout project implementation.

Social Analysis

Explanation:

see section "Environment" below

Environmental Analysis

Explanation:

The safeguards category for Component 1 is Financial Intermediary (FI) and the safeguards category for Components 2 and 3 is B - partial assessment, as environmental and social safeguards apply. With no change in scope envisioned for the additional financing, the safeguards categories will remain the same, and safeguard documents (Integrated Safeguards Data Sheet, Environment and Social Management Framework and Resettlement Policy Framework) were updated and disclosed at appraisal. Safeguard performance has been satisfactory during the project period. In anticipation of the launch of HMFF, training workshops on the application of ESMF and RPF will be conducted during the first half of 2015.

Risk

Explanation:

While the risk of the parent project at appraisal was rated Moderate, risks have increased to bring the overall risk rating of the additional financing to Substantial. The additional financing would fill a financing gap for TMRC due to its inability to tap local bond markets, as envisioned in the parent project. As such, the main risk facing TMRC relates to its sustainability once IDA funds are depleted. As noted in Table 1, rates on risk-free debt (government treasuries) have climbed substantially since appraisal, making bond issuance difficult in the near-term. Market conditions would need to improve, and interest rates fall, before a bond issuance is a viable source of funding. Tanzania has a strong track record for prudent macroeconomic management, growth prospects remain strong and inflation should stabilize, but the country's fiscal stance has deteriorated during 2013-14, which has led to increased reliance on domestic borrowing. Further, political and governance risks have increased amid the Independent Power Tanzania Limited case, and several donors have delayed budget support pending evaluation of the government's response, which could place upward pressure on interest rates. Government commitment to improving the fiscal position would be important to underpinning an improved interest rate environment.

With HMFF funds yet to be disbursed, the fund remains untested leaving it subject to the risk that MFIs will not be interested. Mitigating this risk is strong interest on the part of MFIs that lack medium-tolong term funding. Nevertheless BOT needs to consult MFIs in order to tailor the terms to their needs, and make adjustments in a timely fashion.

ANNEX I: RESULTS FRAMEWORK

Tanzania: Housing Finance Project

Proposed Revisions to the Results Framework		**Comments/Rationale for Change**
PDO		
Current (PAD)	*Proposed*	
To develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.	To facilitate the development of the housing finance market through the provision of medium and long-term liquidity to lenders.	The proposed PDO more realistically reflects the impact of the project, as the project alone cannot be expected to develop the housing finance market. Further, the revision deletes "mortgage" in order to capture the broader housing finance market, which comprises both mortgages and housing microfinance.
PDO Indicators		
Current (PAD)	*Proposed change*	
1. Total number of housing finance loans provided - Refinanced Housing Mortgage Loans	Drop this and the following indicator and add the following indicator: "Outstanding volume of eligible housing loans financed by TMRC (TZS billions)"	The new indicator would capture the volume of eligible loans financed by TMRC, consisting of the underlying loans in refinance transactions and eligible loans generated by prefinancing. Refinanced loans are eligible at the time of the transaction, as verified by TMRC according to eligibility criteria, but eligible loans from prefinancing are generated when banks utilize prefinancing to originate loans which meet TMRC eligibility criteria for refinancing. Banks are required to convert 33%/year of the prefinancing into mortgages, and monthly reports are submitted to TMRC to determine eligibility. This new formulation of the indicator more precisely captures to impact of TMRC on the market. In addition, the project will now only report on loan volume, not number of loans, in order to streamline monitoring and evaluation framework. Further, loan volume measures impact more precisely than number of loans, as loan sizes

		vary.
2. Total number of housing loans provided. Prefinanced Housing Mortgage Loans	Drop, and add intermediate indicator: "Outstanding volume of eligible pre-financed housing mortgage loans"	
3. Total number of housing finance loans provided: Housing Microfinance Loans	Revise to read, "Outstanding volume of housing microfinance loans provided by the project"	Indicator definition revised to measure volume, instead of number of loans, as number will vary depending on loan size, and thus is not entirely under control of project.
4. Mortgage debt outstanding/GDP	Replace with "Number of financial institutions offering mortgage product"	The original indicator, measuring development of the mortgage finance sector, is not entirely attributable to HFP. Hence, indicator will be dropped as an official measurement of HFP performance, but will continue to be monitored outside project monitoring and evaluation. The new indicator is a proxy of market development, with greater attribution to HFP.
5. Mortgage interest rate (%)	Drop	This indicator is supposed to show that increased competition and market growth will put downward pressure on mortgage rates. But this hasn't transpired. Indicator is subject to macro changes outside control of project.
6. New Indicator; TMRC new bond issuance (TZS billion)		The new indicator would measure progress towards achieving a key goal of the additional financing, which is to ensure that TMRC has a sustainable access to funding post project closure.
Intermediate Results Indicators		
1a - Number of financial institutions refinanced by TMRC	Consolidate 1a and 1b to Number of financial institutions financed by TMRC.	Revision captures both prefinancing and refinancing.
1b - Number of financial institutions pre-financed by TMRC	Drop	Pre-financing was intended as a temporary measure to kick-start the mortgage market, and hence will be scaled back during AF.

2a – Outstanding volume of loans refinanced by the TMRC (TZS)	Continue and revise targets	
2b – Outstanding volume of loans pre-financed by the TMRC (TZS)	Continue	
2c – Outstanding volume of eligible loans pre-financed by TMRC	Add	This indicator would capture the conversion of pre-financing, through the origination of eligible mortgages by beneficiary banks. Banks are required to convert pre-financing to loans at a rate of 33 percent per year. TMRC will certify on a monthly basis that loans originated from pre-financing meet eligibility criteria.
2a - Number of credit institution providing housing microfinance loans	Revise to: "Number of credit institutions supported by the project providing housing microfinance loans"	Indicator definition revised to include only credit institutions supported by the project. Baseline is 0 and targets revised**.**
2b # Volume of housing microfinance loans outstanding (TZS)	Revise to: "Outstanding volume of funds provided to financial institutions for the purpose of originating housing microfinance loans"	Indicator revised to measure disbursement of funds to financial institutions for the purpose of originating housing microfinance loans.
2c - Number of housing microfinance loans extended by HMFF	Drop	Volume is a better measure of impact as it is directly attributable to project, whereas number of loans will vary according to size.
3a - Number of new housing units approved for construction	Drop	Indicator dropped due to attribution problems

Project Name:	Tanzania Housing Finance Additional Financing (P151220)	Project Stage:	Additional Financing	Status:	FINAL
Team Leader(s):	Yoko Doi	Requesting Unit:	AFCE1	Created by:	Michael Corlett on 20-Oct-2014
Product Line:	IBRD/IDA	Responsible Unit:	GFMDR	Modified by:	Michael Corlett on 07-Jan-2015
Country:	Tanzania	Approval FY:	2015		
Region:	AFRICA	Lending Instrument:	Investment Project Financing		
Parent Project ID:	P117242	Parent Project Name:	Tanzania - Housing Finance Project (P117242)		

Project Development Objectives

Original Project Development Objective - Parent:

The Project Development Objective (PDO) is to develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.

Current Project Development Objective - Parent:

To develop the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders.

Proposed Project Development Objective - Additional Financing (AF):

The revised PDO is as follows: To facilitate the development of the housing finance market through the provision of medium and long-term liquidity to lenders.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target

Marked for Deletion		☐	Number	Value	0.00	636.00	600.00
				Date	31-Mar-2010	31-Mar-2014	09-Mar-2015
				Comment			
Marked for Deletion	A - Total number of housing loans provided A2. Prefinanced Housing Mortgage Loans	☐	Text Sub Type Supplemental	Value	0		250
New	Outstanding volume of eligible housing loans financed by TMRC	☐	Amount(TZS)	Value	0.00	9.40	95.90
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
New	Number of financial institutions offering mortgage product	☐	Number	Value	1.00	19.00	31.00
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
New	Outstanding volume of TMRC bond issuance	☐	Number	Value	0	0	116
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment		no bond issuance	
Revised	Outstanding volume of microfinance loans financed by project	☐	Number	Value	0.00	0.00	30.00
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
Marked for Deletion	B - Mortgage debt outstanding/GDP	☐	Percentage	Value	0.45	0.36	0.45
				Date	09-Mar-2010	31-Mar-2014	31-Mar-2015
				Comment			
Marked for	C - Mortgage interest rate (%)	☐	Percentage	Value	18.00	18.00	15.00

Deletion				Date	31-Mar-2010	31-Mar-2014	31-Mar-2015
				Comment			
Intermediate Results Indicators							
Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
Revised	1a - Number of financial institutions financed by TMRC	☐	Number	Value	0.00	2.00	14.00
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
Marked for Deletion	Number of financial institutions pre-financed by TMRC	☐	Text Sub Type Supplemental	Value	0		6
Revised	Outstanding volume of loans refinanced by the TMRC (TZS)	☐	Number	Value	0	5.6 billion	49 billion
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
New	Outstanding volume of Eligible housing loans pre-financed by TMRC	☐	Number	Value	0.00	3.83	46.90
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment	billions of TZS		
Revised	Outstanding volume of loans pre-financed by the TMRC (TZS)	☐	Text	Value	0	28.5 billion	73.2 billion
				Date	31-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment			
Revised	2a - Number of credit institutions supported by the project providing housing microfinance loans	☐	Number	Value	0.00	0.00	8.00
				Date	30-Sep-2014	30-Sep-2014	31-Mar-2015
				Comment	baseline set to		

					zero since HMFF has not disbursed		
Revised	Outstanding volume of funds provided to financial institutions for the purpose of originating housing microfinance loans	☐	Text	Value	0	0	30.1
				Date	09-Mar-2010	30-Sep-2014	31-Mar-2018
				Comment	billions of TZS		based on US$3 million under original project, plus US$15 million under AF.
Marked for Deletion	3a - Number of new housing units approved for construction	☐	Number	Value	3000.00	3600.00	5500.00
				Date	31-Mar-2010	31-Mar-2014	31-Mar-2015
				Comment			
Marked for Deletion	2c - Number of housing microfinance loans extended by HMFF	☐	Number	Value	0.00	0.00	1000.00
				Date	09-Mar-2010	31-Mar-2014	31-Mar-2015
				Comment			

ANNEX II: DETAILED ECONOMIC AND FINANCIAL ANALYSES

Tanzania: Housing Finance Project

1. The proposed additional financing includes investments to support mortgage financing, housing microfinance, and capacity support to the housing development industry. The additional financing will continue support to the three reinforcing components: (i) development of the mortgage market; (ii) development of housing microfinance; and (iii) expansion of affordable housing supply.

2. The economic analysis of Component 3 (Expansion of affordable housing supply) presents a special challenge due to the indirect relationship between the capacity building reforms supported under the Project and the stream of benefits that these are expected to trigger. For components related to institutional capacity building, support of the enabling policy environment, and access to finance reforms, the complexity in quantifying economic benefits is multiplied. In the absence of commonly accepted methodologies for the economic analysis of these types of access to finance reform, these types of projects are based on cost effectiveness and more general analytical work on the positive effects of access to housing finance.

3. The economic analysis of this Project is built as a financial analysis with the estimated difference in cash flows to beneficiaries accounted for as cash flows to the Project. Under Component 1, the Project will provide financing to the TMRC. This will enable TMRC to provide liquidity to mortgage lenders. The Project will provide seed capital to the HMFF. As a result, households will be able to access home loans under more favorable terms. The costs and benefits that are expected to accrue from components 1 (Development of the Mortgage Market) and 2 (Development of Housing Microfinance) have been estimated. Using this, the Net Present Value (NPV) and the Economic Rate of Return (ERR) for these sub-components have been calculated. These valuations are constructed through scenario based analyses with sensitivity testing. A qualitative analysis has been included for Component 3, based on the literature discussing the impact of housing finance reform.

4. The total investment under Components 1 and 2 is estimated to result in an NPV of US$6.7 million at the discount rate of ten[12] percent, and an ERR of 23 percent with the base case scenario. Different assumptions and detailed data from multiple sources are used for the analysis of specific components. Due to limited access to reliable data, both components include robust sensitivity analyses to test the impact under different scenarios.

5. The estimated NPV and ERR reflect the value for money of the investments under these two components. These investments are as such expected to generate increases in income for beneficiaries that exceed the opportunity cost adjusted value of the Project investment. The opportunity cost of World Bank funds is estimated at 10-12 percent. Since the ERR exceeds this

[12] Discount rate: The Bank traditionally has not calculated a discount rate but has used 10-12 percent as a notional figure for evaluating Bank-financed projects. This notional figure is not necessarily the opportunity cost of capital in borrower countries, but is more properly viewed as a rationing device for World Bank funds.

percentage, the value of the Project activities outweighs the opportunity cost of using these funds for other investments.

Development of the Mortgage Market

6. The Project will provide financing to the TMRC. This will enable TMRC to provide liquidity to mortgage lenders. The increase in the size of the mortgage market will help to enable new housing projects which will in turn result in new job creation. The additional financing includes an investment of US$40 million to manage implementation of this component, disbursed over the three years remaining for the Project.

7. The impact of this program has been estimated as part of the economic analyses based on the potential increases in income amongst the beneficiaries. Because a portion of these benefits include improvements to overall wellbeing along softer aspects such as health, the valuation analysis that follows is likely to slightly underestimate the Economic Rate of Return (ERR) for this component. Additionally, spillover effects are possible between beneficiary households and their direct networks that will further increase the economic benefits of this component. These areas cannot, however, be accurately measured and quantified and are as such not included in this financial analysis.

8. In the economic analysis of this component, the ERR is expected to be 37 percent. The NPV is expected to be about US$2.6 million, with a discount rate of 10 percent. The positive valuation indicates that the returns on investment for this sub-component exceed the returns that could otherwise be earned on World Bank financing. As such, the income of new housing projects (spread across companies involved in construction and maintenance) and the monetary value of new jobs created (beneficiaries) outweigh the cost of investments under this sub-component.

Table 2: Economic analysis of Mortgage Market Component

NPV (10% Discount rate)	$2,575,300
NPV (12% Discount rate)	$2,094,971
ERR	37%

9. The sensitivity results of this component and the underlying assumptions are summed below.

Mortgage Market Component Assumptions

Interest rate spread	7.00%
Net loss ratio	5.00%
Year 1 average loan size	41,180,029
Year 1 number of loans (disbursement/average loan size)	950

Beneficiary	
Average revenue	32,944,023.40
Percentage of mortgages leading to new property development	50%
Annual growth in new developments (without loan)	2.0%
Annual additional growth increase with loan (Years 1-5)	1.25%
Number of years growth increases due to loan	4
Percentage of properties impacted	20%
Percentage tax base	20%
Tax rate	29%
Average salary per employee (skilled) (annual)	8,500,000
Average salary (unskilled)	-
Annual growth in wages (skilled)	1%
Annual growth in wages (unskilled)	0%
Jobs created per TZS increase in revenue (skilled)	0.0000003
Jobs created per TZS increase in revenue (unskilled)	-

10. Assumptions:

(a) The data on interest rate spreads, net loss, and average loan size are based on estimates gathered from the Bank of Tanzania, Doing Business and other sources of national statistics.

(b) The technical data on average new property income are estimated based on average property values and comparisons with nearby countries. These assumptions have been supported by data gathered during the implementation of the Project thus far, including discussions with Tanzania based experts and comparisons with nearby countries with similar demographics.

(c) The number of beneficiaries is estimated at 3,800 loans provided.

(d) The main impacts of the Project are expected in the form of income due to new property development and jobs created. The impact evaluation of this component has estimated income for new housing developments as 80 percent of the average property value. The percentage of new mortgages that result in new property development is set at 50 percent for the sake of conservatism. 20 percent of new property development is expected to result in faster growth of 1.25 percent for the five years after development. These estimates are set to these amounts in the base case scenario and are tested for sensitivity below.

11. The sensitivity analysis shows that the component ERR with only 17.5 percent of new properties impacted by the increased growth rate rather than the assumed 20 percent rise will only result in a 23 percent ERR. In contrast, if 22.5 percent of new properties are impacted, this will increase the component ERR to 49 percent with everything else held constant. The results of the sensitivity analysis include:

Sensitivity Analysis with Different Scenarios

1. Reduction in portion of new properties showing increased income from the assumed 20% to 17.5%
   ➔ Reduces ERR to 23%
2. Increase in portion of new properties showing increased income from the assumed 20% to 22.5%
   ➔ Increases ERR to 49%
3. Reduction in additional income for impacted properties from assumed 1.25% to 1.0%
   ➔ Reduces ERR to 5%
4. Increase in additional income for impacted properties from assumed 1.25% to 1.5%
   ➔ Increases ERR to 55%

12. The major impact of this component comes from the increase in income for new properties and the monetary value of new jobs created impacted by the Project. The change in these affects the economic analysis and the returns of the Project.

Development of Housing Microfinance

13. The Project will provide seed capital to the HMFF. As a result, households will be able to access home loans under more favorable terms. Additionally, this component will vastly increase overall access to loans. The impact on households has been estimated as part of the economic analyses with a number of different scenarios. The additional financing is investing a total of US$15 million to manage implementation of this component, disbursed over the remaining three years of the Project.

14. In the economic analysis of this component, the ERR is expected to be 18 percent. The NPV is expected to be about US$2.8 million, with a discount rate of 10 percent. The positive valuation indicates that the returns on investment for this sub-component exceed the returns that could otherwise be earned on World Bank financing. As such, improvements in household income (beneficiaries for this component) outweigh the cost of investments under this sub-component.

Table 3: Economic analysis of Housing Microfinance Component

NPV (10% Discount rate)	$2,811,269
NPV (12% Discount rate)	$1,901,546
ERR	18%

15. The sensitivity results of this component and the underlying assumptions are summed below.

Housing Microfinance Component Assumptions

Number of beneficiaries (households)	7,000
Number of beneficiaries (individuals)	35,000
Individuals per household	5

Without Project	
Average loan amount	$600
Average loan amount (TZS)	1,020,000
Percentage of loans provided	70%
Interest rate	40%
Repayment term (years)	0.5
Average household income	$5,000
Average household income (TZS)	8,500,000
Growth rate in household income	2%

With Project	
Average loan amount	$1,500
Average loan amount (TZS)	2,550,000
Percentage of loans provided	90%
Interest rate	25%
Repayment term (years)	2.5
Average household income	$5,000
Average household income (TZS)	8,500,000
Growth rate in household income	2%

16. Assumptions:

(e) The technical data on household revenues, costs, annual growth rates, average loan amounts, percentage of loans provided and interest rates are taken from data gathered through discussion with housing finance experts and comparisons with nearby countries with similar demographics. In many cases, these numbers were adjusted to arrive at more conservative estimates for the sub-component ERR.

(f) The number of beneficiaries is estimated based on average loan size at 7,000 households.

(g) The main impacts of the Project are expected in the form of cost savings due to more favorable interest rates and longer term loans. These assumptions are estimated based on regional trends and have been tested for sensitivity below.

17. The sensitivity analysis shows that the Housing Microfinance ERR with a 30 percent interest rate for microfinance loans instead of the assumed 25 percent will only result in an 11 percent ERR. In contrast, a 20 percent interest rate will increase the component ERR to 27 percent with everything else held constant. The results of the sensitivity analysis include:

Sensitivity Analysis with Different Scenarios

1. Increase in interest rates with the project from the assumed 25% to 30%
   ➔ Reduces ERR to 11%
2. Decrease in interest rates with the project from the assumed 25% to 20%
   ➔ Increases ERR to 27%
3. Reduction in the repayment term for housing microfinance loans from 2.5 years to 2.25 years
   ➔ Reduces ERR to 9%
4. Increase in the repayment term for housing microfinance loans from 2.5 years to 2.75 years
   ➔ Increases ERR to 28%

18. The major impact of this component comes from reduction in loan costs due to lower interest rates and longer term loans. The change in these affects the economic analysis and the returns of the Project.

Expansion of affordable housing supply

19. This component will support capacity building for the housing development industry to improve access to housing finance for households.

20. The relationship between improvements in the capacity for the housing development industry and economic growth is well supported in the literature. First, improvements in access to housing finance result in deeper financial access which has beneficial poverty impacts (Beck 2007 and Honohan 2004). Additionally, Singh (2011) supports this issue by focusing specifically in sub-Saharan Africa. Improvements in housing finance are also considered to be drivers of construction output (Duebel 2007). Further, housing finance results in social benefits as

homeowners have a larger stake in the property and the neighborhood, leading to lower crime levels and improved quality of life.

Rationale for public financing

21. As discussed above, the prevailing high interest rate environment in Tanzania has created a critical constraint within the housing sector. There is, therefore, a need for public intervention to increase access to mortgages and housing microfinance loans. Under this additional financing, the Government of Tanzania, recognizing that increasing access to housing finance is a priority, will provide funding to autonomous institutions (TMRC and HMFF) which will in turn facilitate access to housing finance in a sustainable manner.

World Bank's value added

22. The World Bank has played a leading role in the development of the housing finance sector in Tanzania. The World Bank's value added is also as a channel for global expertise in the sector overall and broader access to finance programs, particularly related to the capacity building, coordination support, and technical expertise that is required for such programs to have a successful impact on local populations.

Financial Analysis

23. **Over the initial project period of 2010-2015, TMRC has gone from not existing, to being a fully capitalized and profitable company.** The analysis in this section is based on the audited financial accounts of TMRC for 2012 and 2013, together with projections for the year end of 2014 and out to 2018. Over the plan period, TMRC is expected to remain profitable and to see significant growth in its balance sheet. Given its simple intermediation business operating model, no credit losses are forecast. The analysis is based on a number of assumptions which are detailed below. No stress testing of the model has been done given that there are limited variables which can alter which would significantly impact sustainability of TMRC.

24. **TMRC's funding need over the period of the additional finance (2015-2017) amounts to a total of US$ 63.7 million.** There are two possible funding sources for TMRC to draw upon in raising this funding. Firstly, it will be able to access further IDA funds on similar terms to the previous project, and it is expected that it will be able to access bond markets from 2016 onwards. The table below shows the split between IDA and bond market funding. In total, IDA funds of US$40 million will be used to support TMRC from the additional finance together with the last disbursements of US$ 8.7 million in 2015 under the initial allocation. The funding need is calculated based on market projections for the mortgage market and the expected share of which TMRC will pre- or refinance. The mortgage market has been growing at a steady 40 percent per annum for past few years. This is projected to grow at a slightly more conservative 35 percent per annum going forward. TMRC's share of funding will rise to just over a quarter of the total market over the additional finance project period.

TMRC Funding needs - $ millions

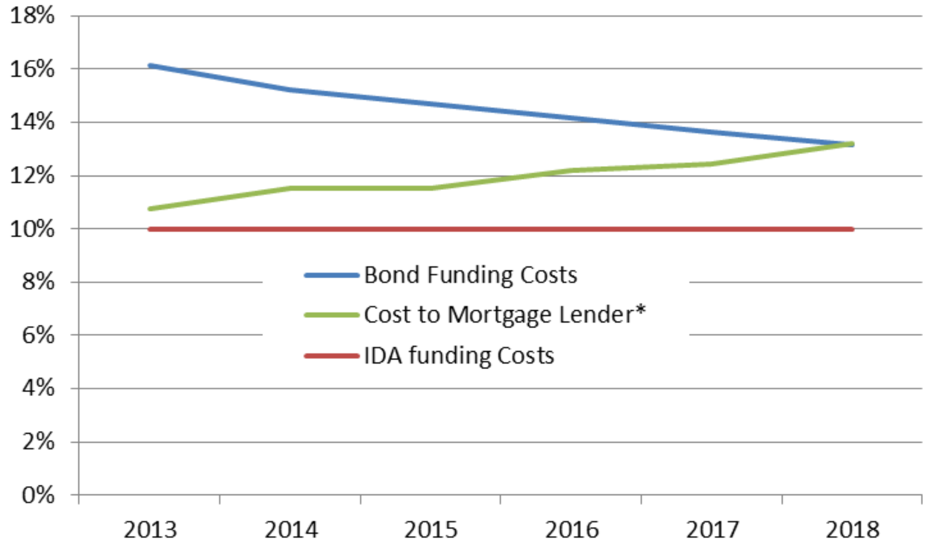
	2015	2016	2017	2018
Mortgage Market	171.4	221.3	284.4	366.7
TMRC Loans	38.3	56.7	79.2	96.3
% of market	22.4%	25.6%	27.8%	26.3%
TMRC Funding Need	18.7	20.0	25.0	20.0
Bond Issuance	-	*5.0*	*10.0*	*20.0*
Loans (from IDA)	*18.7*	*15.0*	*15.0*	-

Note: changes in the stocks may not equate to flow numbers due to currency movements

25. **A steady switch from concessionary IDA financing to market based bond financing will help to ensure the long-term sustainability of TMRC.** The IDA funds in 2016 and 2017 will be used to reduce the overall rate of interest charged by TMRC by blending the two funding sources together. Even beyond that some funds which are being repaid under some of the earlier loans in the project will be 'recycled' and will continue to support a blended rate of interest. This will allow a gradual transition towards a sustainable market based source of long-term finance. On the assumption that the interest rate environment remains broadly similar to that at the end of 2014, it is proposed that TMRC offers lenders a blended refinance rate. The IDA funding would be at around 10.0 percent and allowing for a slight easing of current interest rates, the cost of raising a bond for TMRC would be 13.18 percent. Once TMRCs 1.50 percent margin is added and the funds blended, this would give a final rate to lenders of 13.41 percent, which is higher than it would be from just IDA but lower than just pure bond market funding. Part of the delay in reaching the bond market has been due to difficult market conditions and regulatory issues. In particular, the CMSA authority requires a profitability track record of three years for bond issuers which TMRC will attain in 2016. Market conditions are expected to improve slightly but only marginally. It is anticipated that for the initial issues, additional support in the form of some government backing may be required to get the bonds to market. The Government is fully committed up until 2016 in terms of its contingent liabilities, but would be able to offer support thereafter, which is an additional reason for delaying the first issuance.

26. **Figure 2 below, shows the gradual movement from reliance on concessionary IDA funding towards market rates.** Recycled funds will continue to provide some support for TMRC rates going forward but as the balance sheet grows these will form a decreasing proportion of TMRC's funding base. Although the funding cost of a bond and the cost to mortgage lenders is the same in Figure 2 below, going into 2019, the cost to lenders will continue to raise slightly as TMRC also has to include its own intermediation margin which is currently set at 1.00 percent but is expected to fall over time as operations increase in size and efficiency.

Figure 2 - TMRC Cost of Funds 2013-2018



27. **The financial projections show that profitability of TMRC is sufficient for it to grow its balance sheet on the assumption of a no dividends policy.** Given that all of the shareholders are, or are expected to be users of TMRC this enables TMRC to minimize the margin it charges them, rather than recycling funds to the shareholders. The overall return on equity is limited at a rate of just below 7 percent although it does improve throughout the forecast period. The high capital ratios reflect the need for TMRC to be, and be perceived to be a low risk institution, so as to minimize the cost of its bonds. So throughout the plan period, TMRC maintains a Tier 1 capital ratio in excess of 10 percent, although this gradually reduces. This high level of capital is well within the regulatory norms and limits TMRC's leverage ratio which approaches 9:1 by end of the forecast period. Over the long term, the leverage ratio should be closer to 15:1 or higher if it can be accommodated by a change in regulatory environment.

28. **The overall pricing to the end consumer is dependent on a number of key variables, but most notably it is the overall interest rate level in the economy which will determine final pricing.** The risk free rate of interest, as set by Treasury Bond yields is main determinant of overall mortgage interest rates. Within that constraint, the project can assist in bringing down costs where it can, notably the spread charged by TMRC could be lowered as its operations scale up and gain from scale economies, the cost of issuing bonds can also be reduced as its issuance program grows and lastly through technical assistance and capacity building the margin charged by mortgage lenders can be reduced to bring down overall cost of the loan.

29. **The mortgage market is expected to maintain its current growth trajectory, and may in fact accelerate given that increased levels of new housing will be coming on stream over forecast period.** The central assumptions is that the mortgage market will grow at an annual rate of 35 percent in terms of value of loans outstanding, the number of loans will grow slightly faster as it is expected that lenders will gradually move down market which will see average loan size

gradually reduce. The overall size of the economy is projected to continue growing at a rapid pace of around 6 percent per annum. Despite rapid overall economic growth the mortgage market gradually increases in size relative to the overall size of the economy, moving towards 1 percent equivalent of GDP.

Table 4 - TMRC Balance Sheet 2012-2018

Forecast Period →

(TZS millions)	2012	2013	2014	2015	2016	2017	2018
Assets							
Pre/Re-finance Loans	4,272	16,625	34,100	66,424	102,664	150,703	191,895
Government Securities	5,544	5,544	4,803	5,538	6,445	7,454	8,606
Investment Securities	3,560	6,983	9,606	11,077	12,890	14,908	17,212
Other	555	1,172	200	200	200	200	200
Total Assets	13,931	30,324	48,709	83,239	122,200	173,266	217,912
Liabilities							
Capital	9,525	13,554	14,409	16,615	19,336	22,363	25,817
Share Capital	*10,200*	*13,770*	*14,500*	*16,000*	*18,000*	*20,000*	*22,000*
Reserves	*(925)*	*(620)*	*(591)*	*115*	*836*	*1,863*	*3,317*
Other	*250*	*403*	*500*	*500*	*500*	*500*	*500*
Loans	4,200	16,450	34,100	66,424	93,604	122,154	122,154
Other	138	165	200	200	200	200	200
Bonds	-	-	-	-	9,060	28,550	69,741
Total Liabilities	13,864	30,168	48,709	83,239	122,200	173,266	217,912

Table 5 - TMRC Income Statement 2012-2018

			Forecast Period →				
(TZS millions)	2012	2013	2014	2015	2016	2017	2018
Profit and Loss Account							
Interest Income	1,492	2,416	6,092	10,105	14,930	21,588	28,069
Interest on pre/refinance loans	-	-	*3,978*	*7,696*	*12,159*	*18,420*	*24,455*
Interest on capital invested	-	-	*2,113*	*2,409*	*2,771*	*3,168*	*3,614*
Interest Expenses	371	980	3,410	7,067	10,963	16,405	21,689
Interest on IDA loan	*371*	*980*	*3,410*	*7,067*	*9,679*	*12,460*	*12,328*
Interest on bonds					*1,284*	*3,945*	*9,361*
MRC Net Interest Income	1,121	1,436	2,682	3,037	3,967	5,184	6,380
Other Income	36	88	105	127	152	182	219
Operating Expenses	1,495	1,481	1,777	2,133	2,559	3,071	3,685
Bond Issuance Expenses	-	-	-	-	91	214	453
Other Expenses	2	2	2	2	2	2	3
Profit Before Tax	(339)	42	1,008	1,029	1,467	2,078	2,458
Tax @30.0%	-	12	302	309	440	624	737
Total Profit After Tax	(339)	29	706	720	1,027	1,455	1,721
Proposed Dividend @0.0%	-	-	-	-	-	-	-
Transfer to Reserves	(339)	29	706	720	1,027	1,455	1,721

Table 6 - TMRC Key Ratios 2012-2018

			Forecast Period →				
	2012	2013	2014	2015	2016	2017	2018
Key Ratios							
Tier 1/Assets	68.4%	44.7%	29.6%	20.0%	15.8%	12.9%	11.8%
Leverage Ratio	1.46	2.24	3.38	5.01	6.32	7.75	8.44
Return on Equity	-3.6%	0.2%	4.9%	4.3%	5.3%	6.5%	6.7%
Return on Assets	-2.4%	0.1%	1.4%	0.9%	0.8%	0.8%	0.8%
Cost:Income Ratio	129.2%	97.2%	63.8%	67.4%	62.1%	57.2%	55.8%
Growth in Assets	-	118%	61%	71%	47%	42%	26%

Table 7 - Tanzania Mortgage Market 2012-2018

		Forecast Period →					
(TZS millions)	2012	2013	2014	2015	2016	2017	2018
Mortgage Market							
Number of Mortgage Loans	1,897	2,784	3,700	5,180	7,252	10,153	14,214
Mortgage Debt Outstanding	113,007	156,530	220,000	297,000	400,950	541,283	730,731
Nominal GDP Forecast*	44,708	50,608	56,641	65,551	74,886	86,366	99,584
Mortgage Debt/GDP	0.25%	0.31%	0.39%	0.45%	0.54%	0.63%	0.73%
Average Mortgage size	59.57	56.22	59.46	57.34	55.29	53.31	51.41
Refinancing							
% of Loans Pre/Refinanced	3.8%	10.6%	15.5%	22.4%	25.6%	27.8%	26.3%
Value Pre/Refinanced Loans	4,272	16,625	34,100	66,424	102,664	150,703	191,895

Table 8 - Key Pricing and Model Assumptions

	2012	2013	2014	2015	2016	2017	2018
Key Rates							
Rate of return on Investments	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%
7 year Govt bond	14.94%	15.90%	15.00%	14.50%	14.00%	13.50%	13.00%
Market Liquidity Risk Premiur	0.25%	0.25%	0.23%	0.20%	0.18%	0.15%	0.15%
Average TMRC Bond Yield	15.19%	16.15%	15.23%	14.70%	14.18%	13.65%	13.15%
Bond Issuance Costs	1.50%	1.50%	1.50%	1.25%	1.00%	0.75%	0.65%
Exchange rate TZS:US$ (av)	1,583	1,600	1,647	1,732	1,812	1,903	1,993
Pricing of Pre/Refinance Loan with IDA							
Bond Funding Costs	15.19%	16.15%	15.23%	14.70%	14.18%	13.65%	13.15%
IDA funding Costs	15.61%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
MRC Spread	0.75%	0.75%	1.50%	1.50%	1.25%	1.25%	1.00%
Cost to Mortgage Lender*	16.36%	10.75%	11.50%	11.50%	12.21%	12.41%	13.21%
Mortgage Lender Spread	4.00%	4.00%	4.00%	4.00%	3.50%	3.50%	3.50%
Final Price to Borrower	20.36%	14.75%	15.50%	15.50%	15.71%	15.91%	16.71%
Assumptions							
Tax Rate		30%					
Dividend Rate (based on share capital)		0%					

* weighted cost of funds taking in cost of bond financing and IDA credit