Informal settlement upgrading and low-income rental housing
Impact and untapped potentials of a community-based upgrading project in Dar es Salaam, Tanzania

By Rasmus Precht
Institut français de recherche en Afrique (IFRA)
(French Institute for Research in Africa)
P.O. Box 58480, 00200 City Square, Nairobi, Kenya
rasmus.precht@gmx.de

Paper to be presented at the 3rd World Bank Urban Research Symposium on:
“Land development, urban policy and poverty reduction”, Brasilia, 4-6 April 2005

Abstract

This paper is a presentation of preliminary findings from a PhD research project on the changes in the rental housing sector in an informal settlement in Dar es Salaam, Tanzania, after implementation of a community-based infrastructure upgrading project. A survey in Hananasif unplanned settlement revealed that low-income landlords create additional rental units and improve existing ones but that the positive impact on rental housing provision and on landlords’ livelihoods could be greater if access to finance could be facilitated. The paper discusses possible ways to provide landlords with the much needed financial resources and draws conclusions from the findings of the underlying research for future settlement upgrading policies and programs. This study may be of current interest as the World Bank is engaging again in the financing of large-scale informal settlement upgrading operations in Sub-Saharan African cities. In Dar es Salaam the World Bank-funded city-wide Community Infrastructure Upgrading Program (CIUP) has recently been launched.

1. Introduction: Low-income rental housing provided by low-income landlords – the neglected sector of the urban housing market

Cities in Developing Countries are facing ever increasing shortages of housing affordable to low-income households. Policies aimed at providing housing to low-income households in Developing Countries, either directly through the public sector or through promotion of private investment into housing, have not been able to meet the growing demand. Most Developing Country governments, influenced by policy recommendations from International Organizations, have gone through the same approaches to low-income housing: Until the 1960s slum and squatter clearance with the attempt to re-house residents in public housing projects, either in rental units or in dwellings that they had to purchase. Socially and economically unviable, this approach was abandoned in favor of sites-and-services projects implemented throughout the 1960s and 1970s. Often combined with infrastructure-based settlement upgrading projects, the approach was capital-intensive and implemented in a top-down manner which led to lack of ownership, and, as a consequence, to lack of maintenance. Improvements were not sustainable and insufficient in number. Since the 1990s, participatory or community-based settlement upgrading has been the new paradigm (World Bank 2002b).
None of these approaches has been able to reverse the housing backlog. Upgrading practice and policy have almost entirely focused on state-aided self-help housing construction as a process leading to home ownership. Driven by a nearly ideological belief in private home ownership, national governments and cooperation agencies neglected a reality that has been well documented by an increasing amount of research carried out since the 1980s: A significant proportion of the world’s urban poor are not able to afford property ownership, or have household priorities more pressing than home ownership. Therefore, rental housing is the most logical solution for these households (UN-Habitat 2003a: xvii). For a large number of low-income urban residents, rental accommodation provided by private low-income landlords in informal settlements, constitutes the only form of affordable shelter in the city. In some world regions, such as Eastern Africa, tenants are the majority in informal settlements (Obudho and Mhlanga 1998, 16).

Until the 1980s, research and policy dealing with informal settlements neglected the rental sector (UN-Habitat 2003b, xxii). The results of this neglect were two-fold: There was ignorance about landlords and tenants and their operating and living conditions. As a consequence, there was disinterest on the governments’ side in rental issues, except to convert tenants into homeowners. As a result of research carried out on the functioning of informal rental housing markets since the 1980s there is now documentation on who are the actors, their respective strategies and practices, as well as landlord-tenant relationships. We know that in many low-income urban areas demand for affordable rental accommodation outweighs supply by far, and that most of the existing rental housing stock is in poor physical condition. Rental housing provided in informal settlements is certainly not the panacea to the housing problem of the world’s urban poor, but it is ONE possible way of providing a larger number of them with affordable shelter. Thus the challenge is to increase the quality and quantity of the rental housing stock (UN-Habitat 2003b).

To date, there is still little knowledge about the kinds of programs that might promote the rental housing sector in low-income areas. Consequently, aid programs for rental tenure remain a neglected element of international assistance (UN-Habitat 2003a:166)\(^1\). One type of urban intervention that could promote rental housing is settlement upgrading. In fact, upgrading programs are considered an excellent means by which to help landlords improve the existing housing stock and increase the supply of rental housing in low-income settlements thus enhancing the vitality of low-income suburbs (UN-Habitat 2003b:145). In this sense, a number of authors recommend the inclusion of rental units into self-help programs to improve affordability and cost recovery (Gilbert and Ward 1984; Abrams 1966; England and Alnwick 1982; Praful Soni 1981)\(^3\). Besides, it is widely recommended in the

---

\(^1\) The World Bank, for example, did carry out some important research on rental housing in the past, and its influential policy statement of 1993 (World Bank 1993) did, occasionally, refer to rental housing. However, the Bank has been virtually silent on the issue ever since and has certainly not provided any loans to support the rental-housing sector (UN-Habitat 2003b:181). Few NGOs are currently supporting low-income rental housing. At present, many NGOs seem to be as incognizant to the issues of rental housing as national governments. NGOs involved with tenant organizations, for example, tend to be confrontational, challenging landlords to improve conditions and lower rents. NGOs concerned with developing self-help housing options seem to do little to encourage rental housing. They normally only develop programs for owner-occupation and when they do directly address the problems of tenants, most come up with proposals to turn the tenants into owners (UN-Habitat 2003b:181).

\(^2\) Improvements are defined to include addition, alteration or renovation (Seek 1983:455).

\(^3\) Already Turner pointed out that “sub-letting of property by original settlers (…) provides an economic and socially viable answer to an acute problem” (Turner 1968, 358).
literature to offer finance to existing and potential landlords (Johnson 1987:187; Salmen 1987:68), an approach that is compatible with the current enthusiasm for micro-credit.

Despite these recommendations, targeted measures for the increase and improvement of rental units have been lacking in most upgrading projects. Accordingly, evaluations of upgrading projects have not paid systematic attention to the effects on the rental housing sector in the upgraded settlement (UN-Habitat 2003b:145). Moreover, research has not yet looked in detail at the (untapped) potential for the promotion of low-income rental housing that arises at the moment of the upgrading intervention.

2. Objectives, theoretical framework, research design and limitations of the study

2.1. Objectives, theoretical framework and research questions

Several studies prove the increased potential for rental housing after upgrading. The provision of services and the integration of the settlement into the city fabric, often also due to improved transport links, attract new tenants and encourage creation of rental accommodation (Skinner et al 1987; UNCHS 1989; Banerjee 2002). It can be expected that increased demand leads to a higher rent level and thus to better profits for landlords from their investment in rental units. The research project on which this paper is based analyzes two aspects:

(i) The quantitative and qualitative changes that have occurred on the supply side of the rental housing market in the settlement after physical upgrading was implemented.

(ii) The (untapped) potential for the promotion of rental housing provision in upgrading programs, with a view of how rental housing could be promoted in future upgrading projects

The post-upgrading dynamics in rental housing provision are assessed at two levels, (i) the changes in the rental housing stock in terms of quality and quantity, and (ii) the effects of these changes on the landlords and their households’ livelihoods. The assessment of potentials for rental housing focuses on landlords’ needs now and at the beginning of the upgrading project, and draws conclusions for the design of suitable support measures for a more effective use of existing rental potential that arises with the implementation of upgrading projects/programs.

Urban Housing Theory and the Kumar-Model are helpful in the analysis of the impact of settlement upgrading on landlordism in the case study settlement.

Urban Housing Market Theory

The urban housing market is a framework of supply and demand (Grimes 1976). Factors that determine demand are changes in family income, distribution of income, rate of household formation (as a function of population growth) and household size; household priorities, nature of employment, age, and occupation. Supply in the urban housing market is determined by all factors of production directly involved in the construction and maintenance of housing as well as in management, marketing, insurance and related services.

What is true for the urban housing market in general, also applies to the urban rental housing market in particular. It may not function properly in the sense that it provides the optimum amount and quality of housing to satisfy consumer demand. Reasons for such disequilibrium
are constraints to the provision of rental housing. The rental housing market would function better if these constraints could be removed. The two main types of constraints are institutional and economic (Grimes 1976):

1. **Institutional**: legal barriers and administrative controls (zoning, building codes, minimum wages legislation, rent controls, institutional arrangements governing housing finance and land allocation).
2. **Economic**: flow of resources into the rental housing sector constrained by infrastructure, rules of financial management, transaction and information costs, rates of return

Factors that have constrained quantity and quality of rental housing provision in the rental housing market in DSM are rent control, inaccessibility to land by low-income landlords (high price, ineffective land allocation agencies), shortage of finance (low incomes), and, related to this, non availability of affordable building materials (Kiduanga 2003).

**Kumar-Model of low-income landlordism**

This concept defines both forms and conditions which influence development and dissolution of landlordism in the cities of Developing Countries (Kumar 1996:321). Landlordism is defined as the activity of women and men who let accommodation. It does not refer to those who only own land (Kumar 1996:317). Kumar identifies three types of landlords, namely subsistence, petty-bourgeois and petty-capitalist.

The subsistence landlord has only one house and initially uses it solely for self-consumption of its use value. If the household needs to augment its income (for example for completion or maintenance of the dwelling or to meet daily needs), the household may choose to rent out part of the dwelling in order to achieve additional income. This conversion of use value to exchange value is part of a survival strategy and not a deliberate move. The household thus enters the rental housing market by default. The greater the number of households in informal and low-wage formal employment, the more this form of landlordism would predominate in informal settlements.

The petty-bourgeois landlord, like the subsistence one, owns one house only but unlike he/she deliberately produces rental accommodation in order to generate additional income. Income from rental housing is used to repay loans, purchase consumer durables, or accumulate savings for house improvements. The aim is to improve the household’s quality of life.

The petty-capitalist landlord owns more than one property and produces rental units in order to expand and reproduce capital in the form of landed property. Rental units are provided for their exchange value.

These forms of landlordism are not static. Internal conditions such as the composition of the household, the number of income earning members, dependants, etc. and various external factors can transform subsistence landlords into petty-bourgeois landlords as much as petty-bourgeois landlords can become petty-capitalist landlords. The reverse can also occur.

---

4 Rent control legislation was implemented originally because of the great disequilibrium on the rental housing market, but it functioned as disincentive for rental housing supply and thus aggravated the shortage of rental stock. However, rent control was widely ineffective in informal settlements (Kiduanga 2004). Instead, it is believed that additional supply would moderate the prices charged and rent controls would not be necessary (Johnson 1987).
Applied to this research, two main questions arise from this theoretical perspective:

- Does upgrading constitute an “external factor” that has the ability of transforming landlords from the type they currently are (according to the Kumar-Model) into the next higher type? According to the baseline data produced in the beginning of the case study project in Hananasif, prior to upgrading the vast majority of landlords must have fallen into the subsistence-category. Have they manage to become petty-bourgeois landlords who deliberately produce rental accommodation to generate additional income? If so, how many of them?

- Now that the settlement is more accessible and better serviced with newly created infrastructure, some of the economic constraints to adequate provision of rental housing have been removed. Does this also apply to the flow of financial resources into the rental housing sector? Can landlords now easily access finance to realize their rental housing projects? Do property owners become landlords to benefit from the new earning opportunity?

2.2. The selected case study settlement, research design and limitations

Hananasif unplanned settlement in Dar es Salaam, Tanzania

Tanzania has a long history of informal settlement upgrading that started in the 1970s with the National Sites and Services Project, financed by the World Bank. Due to dissatisfying results, this project was discontinued in the early 1980s (World Bank 2002a). Settlement upgrading resumed in the 1990s under the Sustainable Dar es Salaam Project (SDP). A core element of the city-wide SDP was the Hananasif Community-Based Upgrading Project. Hananasif being so far the only recently completed upgrading project for which comprehensive socio-economic data is available, I chose this settlement as case study. This upgrading pilot project, implemented in two phases from 1994 to 2000 by the Dar es Salaam City Council (DCC) in collaboration with various donors (UN-Habitat, ILO, UNDP, UNV, Ford Foundation) had the following objectives: (i) to improve living conditions and expand employment opportunities in unplanned settlements in Dar es Salaam; (ii) to demonstrate the feasibility of a community-based approach to urban settlement upgrading based on stakeholder participation, community contracts and labor intensive methods; (iii) to build capacity within the DDC in view of future scaling-up of the approach; and (iv) to solve the immediate problem of flooding by creating a storm water drainage system in Hananasif settlement (Nguluma 1997:3, 35). Whereas during phase I the focus was on construction of storm water drainage and improvement of access roads, phase II followed a multi-sectoral approach and integrated improved access to urban services through building capacity of the Hananasif community to implement and manage urban infrastructure, micro-enterprise development, improvement of piped water provision, and solid waste management (UCLAS and NIGP 2000: ix, 16). The project was participatory not only in terms of planning and implementation of public works, but also financially. The community had to raise TZS (Tanzanian Shillings) 8 million (USD 15,355). The tenure question has not been tackled. All land formally belongs to the government. Very few (2.7%) of house owners in Hananasif have had their plots surveyed and registered to obtain a

---

5 The SDP was launched in 1992 and funded mainly by UN-Habitat. It introduced the Environmental Planning and Management (EPM) approach in Dar es Salaam to improve the capacity of the city council to better plan, coordinate and manage urban development functions in partnership with other institutions. The main focus was on solid waste management through privatization and CBO involvement, and the reduction of traffic congestion through creation of a one-way street system (World Bank 2002a).
Certificate of Occupancy from the Commission of Lands (UCLAS and ILO 1998:28). None of the landlords whom I interviewed indicated that her/his plots had been surveyed.

Hananasif, an area of 50 ha located at 4 km away from the city center, is one of the oldest unplanned settlements in Dar es Salaam. In 1998, there were approximately 20,000 residents (5,045 households) in 1,777 residential housing units. Thus there is a population density of 400 persons/ha.

There is a strong rental housing sector in Hananasif: 70% of the households are tenants, 30% house owners (UCLAS and ILO 1998:28). Many house owners in Hananasif supplement their regular income through renting out rooms while others depend entirely on their income from rent (Nguluma 2003: 106).

A recent study estimates average monthly household income at USD 69 (WAT 2004a: 16).

Research design

In February this year I conducted in-depth interviews with local leaders (Sub-Ward- and Ten-Cell-Leaders) in the upgraded settlement. The insights gained from these interviews informed the design of three structured questionnaires, one for landlords, one for tenants and one for property owners who do not rent out rooms. A sample of 100 households (5% of all households) has been randomly selected. Up to now, 50 households have been interviewed; the remaining 50 will be interviewed in the coming weeks. The findings presented in this paper are based on the analysis of the 23 landlord questionnaires that have so far been administered.

Limitations

The findings presented here are only of preliminary nature for the following two main reasons:

(i) The number of landlords interviewed is not yet sufficiently representative, although the analysis shows a high degree of “redundancy”. Similarity of responses is taken as an indicator that the salient issues have been identified (Lincoln and Guba 1985).

(ii) In order to ensure that the documented changes on rental housing are truly the result of upgrading, I will have to conduct some comparative research in an unplanned settlement that has not been upgraded yet. The Dar es Salaam City Council produced a rapid assessment of all informal settlements. This was done as part of a settlement prioritization process that led to the selection of a first group of 16 informal settlements in Dar es Salaam that will be upgraded by the World Bank-funded Community Infrastructure Upgrading Program (CIUP). I have identified Kigogo Mbuyuni Sub-Ward as an area with similar characteristics to Hananasif (URT 2002: 36). After completion of the survey in Hananasif, I will study the changes that occurred in this area since 1994 in order to produce data for cross-settlement comparison.
3. Preliminary research findings

3.1. Quantitative and qualitative changes in rental housing supply

Almost all landlords already lived and owned one or more houses in Hananasif prior to the beginning of upgrading in 1994. One out of three house owners started letting rooms only after upgrading began.

There is a very low degree of absentee landlordism in HN as only 17% of landlords interviewed own 2 or 3 houses in the settlement which they rent out\(^6\).

Majority of landlords (72%) have increased the number of units they rent out. 60% have created between 1 and 3 additional units since upgrading started, 12% have even increased their stock by 46 units. 22% of landlords in 2005 rent out the same number of residential rooms they already let before upgrading\(^7\). In total, the housing stock has grown by 84% between 1994 and 2005.

73% of landlords have made improvements to their rental rooms since upgrading, mostly roof, walls and floor, some also put electricity into the rooms and/or installed windows and toilets.

These changes demonstrate that important extensions and improvements have been made in the settlement’s rental housing stock.

3.2. Evolution of monthly rental income

<table>
<thead>
<tr>
<th>Residential rent (in USD)</th>
<th>1994</th>
<th>2005</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average rent per room</td>
<td>2.50</td>
<td>6.50</td>
<td>160%</td>
</tr>
<tr>
<td>Average rent per household</td>
<td>9</td>
<td>22</td>
<td>145%</td>
</tr>
</tbody>
</table>

Total income from letting rooms has more than quadrupled since 1994. As the above table shows, average rent per room is up from USD\(^8\) 2.50 to USD 6.50. Average rental income per landlord household has almost tripled from USD 9 to 22. Even when taking into consideration that the Tanzanian Shilling has devaluated over this period, this is a considerable increase in the rent level and, accordingly, household income from letting rooms.

There is a positive correlation between room improvement and rental income per room. 57% of landlords achieve an average monthly room rent of above USD 5.30; almost all of these (85%) have, since upgrading started, made improvements to their units.

87% of landlords have increased the rent since upgrading began. Most of them did so because they needed more income, because they had improved the quality of the rental rooms, or due

---

\(^6\) This finding is in line with the housing tenure status in the 1998 Baseline Study: 37% of the properties were owner-occupied, 45% by owners with tenants, and 18% by tenants only.

\(^7\) Upgrading seems to have opened a lot of opportunities for income through letting of space for commercial purposes. Before upgrading, none of the landlords interviewed rented out commercial rooms, by this year 22% of them have created commercial rental units. The commercial rental option is only open to house owners whose property is located strategically well, i.e. where potential customers pass (along main streets, street corners, access roads to the settlement).

\(^8\) 1 US Dollar = 1136 Tanzanian Shilling (Interbank rate as of March 26, 2005 according to www.oanda.com).
to a price increase in building materials. The latter has to be understood with regard to the fact that some landlords use rental income to finance the completion of their house or the creation of additional rental units (see later in this paper). But the general increase in rent also reflects the improved market value of rental rooms in an unplanned settlement that prior to upgrading was known for its stagnant waters after rains and the associated sanitation and health problems.

### 3.3. Changes on landlord household level

It occurs that not much has changed in the use of income from letting rooms. Just as before upgrading, approximately 39% of the landlords spend rental income on satisfaction of daily household needs. One out of four landlords invests her/his rental income in their children’s education. A small number of landlords use the money for the construction of more rental units. Before upgrading, in the case of 1/5 of the landlords, rental gains went into incremental house construction. Nearly the same number of landlords now, after upgrading, improves and maintains their house with rental profits.

<table>
<thead>
<tr>
<th>Use of rental income (in % of landlords)</th>
<th>Before upgrading</th>
<th>After upgrading</th>
</tr>
</thead>
<tbody>
<tr>
<td>construction of rental room(s)</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>building of my house (incrementally)</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>school fees</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td>daily household expenses</td>
<td>47</td>
<td>52</td>
</tr>
</tbody>
</table>

The table shows that there has been no clear move up from subsistence landlordism (Kumar-Model). After upgrading, the majority of landlords are still using rental income for subsistence purposes, i.e. daily consumption and completion of the household’s dwelling. Only the combined 21% (4% construction of additional rental rooms and 17% improvement and maintenance of the building) could be seen as indicator of a first timid tendency towards a deliberate expansion orientation that would more coincide with the approach of the petty-bourgeois landlord. But above all, these findings demonstrate that without external help this step ahead towards a higher form of landlordism is not achievable by most landlords.

The monetary importance of landlords’ different income sources has not been part of the survey. The only income source for which I obtained the monthly monetary value is “income from letting rooms” for I calculated it myself from landlords’ indications on monthly rent for each of their rental units. Monetary information for the other income sources was not collected as this is usually inaccurate in informal settlements were households do not keep records of their income that varies significantly according to fluctuations in income from informal sector activities. I have therefore established the relative importance of rental income through weighing.

The importance of landlord households’ rental income relative to other sources of livelihood indirectly confirms the dominant subsistence type. Most landlord households indicate small (informal sector) business activities and income from letting as their most important sources of income. This observation is confirmed by the question administered to landlords about the importance of rental income to their overall household budget. 52% stated that rental income was an important supplement to other income sources, whereas for 43% of landlords rental

---

9I multiplied the number of indications for the first income source by 6, those for the second by 3, and those for the third source by 1.
income was very important. For 13% of landlords, income from letting rooms presents the only livelihood source. Most of these landlords are retired or retrenched employees from the public or private sector who invested their retrenchment/retirement packages in the construction of rental units and now live from the rent payments.

A household survey conducted for a recent assessment study on housing in Hananasif collected data on monthly household income. Although this data might not be very reliable, I use it to put rental income into relation with total household income. According to WAT (2004a: 16), average monthly household income is USD 69, my figure for average monthly income from letting rooms is USD 22. This implies that income from rent constitutes on average 32% to total monthly household income in Hananasif.

The main reasons why landlords created more rental rooms appear to be in line with the above findings. 40% of landlords were driven by the need for additional income, 25% wanted to capitalize on the improved quality of their rental units. This also reflects the ameliorated general living environment in the settlement which is the result of upgrading.

### 3.4. Costs and mode of financing used for increase and improvements in rental stock

Most landlords who added rooms constructed them adjacent to existing buildings on their plot. Some simply converted existing rooms into rental units. Only very few (5%) obtained an additional parcel of land in the settlement to put up new rental structures. The question “How much money did it cost you to create one (additional) rental room?” was difficult because time seems to play tricks with people’s memories. Also, the predominant incremental style of construction makes it impossible for many landlords to indicate the total cost for one room. Information provided on cost per room varies between USD 70 and 440. The same applies to costs for room improvement. Many landlords can’t remember the exact amount spent; indications vary between USD 30 and 700.
Income from formal employment and self-employed informal business activities are the most important sources of finance for both the creation of additional rental units and the improvement of existing ones. But also savings from rental income are an important source. An innovative way of financing is to take a rent advance in kind from one’s tenants: One out of ten landlords made tenants realize the improvements and then allowed them to live rent-free for a pre-determined period of time. 9% of landlords received salary advances of USD 350-440 from their (formal) employers. Majority of landlords have experienced difficulties in finding the money for their rental projects. 75% of the landlords who did not make any improvements didn’t do so for lack of funds. None of the landlords interviewed managed to obtain loans from formal finance institutions. Hananasif being an unplanned settlement, most house owners do not have any documentation on their land tenure that they could use as collateral.

![Most frequent finance mode for rental improvements and additions](attachment:finance_mode.png)

3.5. Potential for further expansion and improvement of rental housing

There is considerable potential for further improvement and extension of the rental housing stock in Hananasif. 48% of the landlords interviewed intend to create between one and six additional rental rooms. Costs per additional rental unit, as estimated by landlords, range from USD 500 to 1,300. All landlords intend to make further improvements to their rental units. These include roofing, floor, walls, ceiling, doors, power outlets/electricity, windows, burglar bars, painting, and toilets. For 90% of landlords, the main obstacle in realizing these intentions is lack of access to finance; only for one out of ten lack of space on the ir plot is a problem.10

---

10 Population densities in Dar es Salaam reach 1,500 persons/ha with an average of approximately 150 persons/ha (World Bank 2002a). With 400 persons/ha there is no serious crowding in Hananasif, in fact there is still room for more densification. With current pressure on Dar es Salaam’s low-income neighborhoods due to population growth and migration, an unplanned settlement as centrally located as Hananasif will have to accommodate more residents in the future. Some authors have even raised the idea of expansion of rental housing stock through vertical extension if horizontal extension is no longer possible due to lack of building space (Nguluma 2003: 217). Up to now there are only a handful of multi-storey buildings in Hananasif. None of them houses tenants on the upper floor (own observation during field work).
3.6. How could access to finance for low-income landlords be facilitated?

Access of self-help participants to formal credit is still a major obstacle. Few banks loan to house owners in unplanned settlements because income from informal sector activity is not accepted as collateral; this includes receipts for income through informal renting. But it is not only the formal financial institutions that have “red-lined” unplanned areas; it is also the low-income groups themselves who do not trust banks and mortgage companies, for the loan repayments can endanger a family’s future (UN-Habitat 2003:147).

Asked how access to finance could be facilitated for them, landlords provided answers that reflect both reality and what could/should be improved: As we have seen earlier, landlords have so far financed their rental units through a multiple-income-source strategy, i.e. a combination of savings from formal employment, small business activities and accumulated rental income. Micro enterprises received financial support through a community-run micro-finance scheme\(^\text{11}\). Many people in Hananasif are familiar with this scheme; it is for this reason that one out of five landlords would favor the extension of the micro-credit scheme to also provide loans for rental improvements. 20% of landlords would like their plots to be surveyed so they can use it as collateral for a bank loan. But the largest group of landlords interviewed - one out of two - see participation in a savings and credit cooperative society (SACCOS) as solution to their financing problems.

The Hananasif upgrading project deliberately did not provide loans for housing improvement. This was left to the residents in order to keep upgrading costs down and enhance chances for replicability of the community-based approach. The question whether landlords would have taken a loan for improvement of existing rental rooms and/or creation of additional ones – had the project offered it in its beginning – was answered with “yes” by 90% of respondents.

\(^{11}\) Under the supervision of the Community Development Committee (CDA)
Two thirds of landlords interviewed would favor a series of small loans (“step loans”) repayable in short periods targeted to support incremental construction/improvements. Most landlords depend on income from informal sector activities. As this is very irregular it would be difficult for them to plan and adhere to a loan servicing plan over a rather long term. One out of three landlords would prefer step loans that have to be paid back within 3 to 6 months. The same number of landlords would go for step loans that can be serviced in very short intervals of between 1 and 4 weeks.

The last third of interviewees came up with a different idea: they would prefer to receive a rather large loan that can finance completion of 1-2 rental units. The rent of at least one of the new rooms is “owned” by the loan agency, i.e. goes straight to servicing the loan. Thus the room(s) built with the loan would at the same time function as collateral.

4. Possible ways of promoting the improvement and expansion of rental housing stock in informal settlements in Tanzania

4.1. Income from letting rooms as alternative loan collateral

The above suggestion made by some of the landlords is in line with an idea put forward in the context of rental housing in informal settlements in Gaborone, Botswana. The authors suggest that “collateral requirements are less problematic as existing structures may be mortgaged (provided they meet the criteria of lenders) or a bond placed as guarantee against rental income where land on housing tenure may be extralegal” (Datta and Jones 2001: 344). As most house owners have no legal title to the land they occupy, the land mortgage option is not available to them at this point.

It is interesting to note that among Hananasif landlords there is a clear trend towards written rental contracts instead of oral agreements. Before upgrading only 1 out of 3 landlords had written leases with her/his tenants, by 2005 this had increased to 2 out of 3. Another noteworthy change is the move away from the classic “month-by-month” rent payment mode towards agreements that require the tenant to pay 3, 6 or even 12 months in advance (see below table). This is what is being practiced in the formal rent sector in Dar es Salaam and reflects a move towards formalization of the informal rental sector. It gives landlords two advantages: (i) security, i.e. rent arrears are less likely, and (ii) a longer term planning and investment capacity, i.e. she/he can make use of a lump sum instead of having to collect (and
sometimes run after) petty amounts every month. This could be also be interpreted as an indicator of a tendency towards the next step following subsistence petty landlordism in the Kumar-model.

<table>
<thead>
<tr>
<th>Rent payment mode</th>
<th>1994</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>monthly</td>
<td>69%</td>
<td>39%</td>
</tr>
<tr>
<td>every 3 months</td>
<td>8%</td>
<td>22%</td>
</tr>
<tr>
<td>every 6 months</td>
<td>8%</td>
<td>22%</td>
</tr>
<tr>
<td>per year in advance</td>
<td>15%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Both of these trends would facilitate using future income from letting rooms as collateral for the loan institution. A written rent contract, detailing rent amount and payment mode, could be considered equivalent to security through income from small- and medium enterprises in the informal sector (as has been practiced in the CDA-micro-finance scheme). But this would require a change in the perception of room letting as an economic activity. In the past, provision of rental housing has often not been seen as a business by researchers and by landlords themselves.

Promising experiments directly focusing on rental housing promotion have been conceived in two other upgrading initiatives in Sub-Saharan Africa. As part of the Maweni Squatter Resettlement Program in the secondary town of Voi in Kenya, residents started a cooperative housing society that is to finance and organize the construction and improvement of dwellings for the beneficiaries. But considering the poverty level in the area, it was estimated that most of them may not have any money to pay back the loans. Nonetheless, the community expressed the desire that “those who are very poor should not be left out” (UN-Habitat Best Practices Database 2000). Therefore, the cooperative housing society would build two-room dwellings for “those without economic power to repay the loans in their present conditions”. While the beneficiary household would occupy one room, the other is rented out. The rental income would be used to repay the loans.

Another interesting initiative would be the Alexandra Renewal Project (ARP) in Johannesburg, South Africa. In 2003, considerations were underway to encourage small-scale private landlords to build or upgrade property to accommodate up to six tenants (UN-Habitat 2003b:146).

---

12 Nguluma, in a study on housing transformations in Hananasif, refers to renting out rooms as “a distinct economic activity taking place in residential houses” (Nguluma 2003: 106). Contrary to this, Sinai, in a study on the use of the home for income-generation in Kumasi, Ghana, notes that “renting rooms to others is different from other economic activities taking place in the home in that it is passive – it does not require work. Many landlords have a job, and renting rooms to others is not the only income source for the household. Households that rent rooms to others have a common characteristic – they have to be home owners” (Sinai 1998: 419). To prevent bias in the results of his study, he excluded the use of the home for income-generation through rent from his analysis.

13 In a recent study carried out in Miburani, a low-income neighbourhood in Dar es Salaam, Kaijage found that although “in this settlement renting is the dominant income generating activity (…) surprisingly (…) nearly all of the respondents who are letting rooms do not regard this as a business”. The landlords interviewed explained this with (i) delays in payments (rent), and (ii) the low profit they achieve (Kaijage 2005). Both of these two characteristics of their activity do not seem to fit the picture of making money through one’s own “business”.

14 This program started in 2000 and was voted one of the “Best Practices 2000” by UN-Habitat. I have established contact with the donor agency GTZ and the Kenyan cooperative federation body NACHU (that is said to have been involved with the Maweni project) in order to obtain documentation on the implementation of this approach. I am going to assess which lessons can be drawn to design rental housing promotion elements that could be integrated into upgrading initiatives elsewhere.

15 Contact with this project has been established and a visit to Alexandra in order to make a follow-up on this initiative is planned.
From the above analysis of landlords’ livelihoods and financing preferences, two finance models for the expansion and improvement of rental housing provision can be derived\(^6\).

**Model 1**—For landlords with sufficient income from sources such as employment, self-employed economic activities or existing rental housing: Step loans for incremental construction/improvement. In this type of loan scheme the borrower becomes eligible for another and possibly larger loan when the former one is repaid. Each step loan can be used to finance a particular stage of the new rental unit or its incremental improvement (Government of Tanzania and UN-Habitat 2003: 94). Demand for this approach is reflected in 2/3 of landlords’ responses (see above table).

This model is currently being implemented in Hananasif by Women Advancement Trust (WAT), an NGO and Savings Association and Credit Cooperative Society (SACCOS)\(^7\). WAT’s focus is entirely on improvement of individual homes and not on rental housing although in one of their recent sensitization workshops it was mentioned that improved houses can attract wealthier tenants and thus lead to higher rents (WAT 2004b: 10). In the settlement, WAT has so far been working with two groups containing of five members each. Each member “saves” by paying in USD 8.80 every month. In the fourth month a loan of USD 105 is given out. This amount, plus interest, is repayable within one year. If a member can manage to pay in more than USD 8.80 during the three months saving-period the loan amount will be larger. It is planned that WAT-SACCOS members get access to subsidized building materials (Interview with Mr. Kenneth, Hananasif resident representative to WAT, Jan. 20, 2005).

The disadvantage of the WAT-focus on house improvement instead of rental room improvement is that a loan invested in housing amelioration is not immediately productive. If the improvements do not include rental units, loan repayment has to be ensured through different sources of income, i.e. employment or self-employed business activities. In other words, poorer households who do not have a diversified set of income sources are excluded from such a scheme.

**Model 2**—For those who do not have sufficiently stable source(s) of income that could ensure loan repayment, an approach similar to the one developed by the Maweni project could be followed: A cooperative housing society with external funding enables construction of a 1-2 rental additional of which the monthly rent for at least one goes directly back to the cooperative society for servicing the loan. In case the beneficiary landlord leaves the settlement, the rental unit(s) could be sold to another landlord in the settlement, or be managed – at least in the interim – by the society itself. What are the costs such a cooperative society would have to cover in the form of a loan?

The landlords’ most optimistic estimation of costs for the construction of a rental unit is USD 500. If we assume that for a brand new room a monthly rent of USD 8 can be charged, the  

---

\(^6\) The micro-finance option, through extension of the CDA-run scheme to include small loans for rental housing improvement/creation does not seem advisable in Hananasif. The program had to be shut down in the middle of 2004 due to irregularities in the management of the revolving fund by the CDA combined with deteriorating repayment morale on the side of the borrowers (Interview with Mr. Nestory Joseph, CDA-chairman on Jan 24, 2005).

\(^7\) SACCOS have become the fastest growing institutions within the cooperative finance sector in Tanzania. In the shelter sector, they serve three basic functions: They (i) enable households to pool resources to acquire and develop land and housing; (i) facilitate access to finance; and (iii) enable groups to pool resources and reduce construction costs. SACCOS’ have great potential to also finance expansion of the private low-income rental housing sector. They offer shorter-term credit and constitute a channel through which external housing finance can be passed on to reach poor households (Government of Tanzania and UN-Habitat 2003:95).
loan amount of USD 500 would be recuperated, through rent alone, in 62.5 months (= 5.2 years). In a different, less optimistic scenario, room construction would amount to USD 1,000. At the same monthly rent of USD 8 it would take 125 months (= 10.4 years) to generate the money equivalent to the USD 1,000 loan. This calculation excludes interest, inflation rate, and assumes that forwarding of monthly rent to the cooperative society functions smoothly. Five years appear to be a reasonable, because overseeable, period. Many development cooperation projects run over 5-year periods and budget accordingly. In this sense, the cheap room option based on a USD 500 construction loan seems feasible.

SACCOS’ could be the loan agencies running the operations on the ground in the settlement. But if this model is to move beyond pilot status in a particular settlement, there would have to be a coordinating body at national level that could also coordinate fund-raising activities with donors. Such a special rental loan fund to be implemented as part of a programme for “assisted rental housing development” could be managed for example by the National Housing Corporation (NHC). This institution, set up in 1962, has in the past built public rental housing accommodation, gone through various metamorphoses and is currently looking at its future roles. NHC could serve as distributing and monitoring agency that passes the funds to the different SACCOS’ (Government of Tanzania and UN-Habitat 2003: 95).

4.2. The need for subsidies

It is difficult to imagine that commercial lenders would get involved with such loan schemes for they might lose out. Such a loan scheme cannot be successful without subsidies. As in many other Developing Countries, current socio-economic policy in Tanzania requires that the economic activities like housing provision be left to the private sector, with the government providing suitable policies and regulations. However, housing in Tanzania is so important that it cannot be left to the forces of the market alone. The government should, therefore, intervene by subsidizing housing. Subsidies can be justified not only to achieve social goals such as fairness, justice and societal stability, but more specifically because they can help improve public health (decent shelter protects residents from diseases); overcome market inefficiencies that yield poor housing or insufficient volume of new construction particularly for low-income households; and stimulate economic growth. Therefore, “many residents feel that Tanzania needs to take deliberate steps to enable low-income (...) households to access housing finance, directly, or indirectly” (Government of Tanzania and UN-Habitat 2003: 92-3).

Without any doubt, a low-income country like Tanzania depends on donor support for such interventions in the rental housing market. As the donor community is known to be interested in shelter especially for poor households, it could play a crucial role to enable the realization of the proposals suggested above. Support to cooperative housing societies would be one option, other forms of support could be through provision of capital funds for interest only loans, e.g. through seed capital for revolving funds. Moreover, there is always a need for technical assistance 18 (Government of Tanzania and UN-Habitat 2003: 96).

18 For example, the landlord survey revealed that none of the landlords adheres to a Landlords’ Association. If landlords could be assisted in organizing themselves in interest groups, this could strengthen their negotiating power vis-à-vis lending institutions.
4.3. Implications for cost recovery and replicability of community-based settlement upgrading in Tanzania

Being a pilot project for community-based upgrading, beneficiaries in Hananasif had to contribute financially towards project implementation\(^9\). One of the questions of the landlord survey was whether landlords had managed to pay the required financial monthly contributions. Only 50% of the landlords claim to have contributed as prescribed. A number of landlords indicated that they simply didn’t have the money to do so. This is in line with explanations by earlier evaluations that came to the conclusion that some households were just too poor to contribute (Nguluma 1997:40-41). When I discussed this issue, notably the importance of beneficiaries’ financial participation for the scaling-up of the community-based upgrading approach to include other unplanned settlements in the country, a number of landlords explained that they could have made best use of loans for rental housing improvement/expansion when the upgrading project began. They argued that this would have enable them (i) to capitalize immediately on the settlement’s new attractiveness for wealthier tenants due to the highly visible upgrading works, and (ii) to generate additional regular monthly income (from improved/new rental units) that would have allowed them to pay their full contribution towards physical upgrading. In other words, landlords would have welcomed the launch of a rental loan scheme at the time of the outset of settlement upgrading. It is great that WAT is intervening in the area now but such an initiative could have come a lot earlier.

The Community Infrastructure Upgrading Program (CIUP), a new, comprehensive upgrading initiative for upgrading of unplanned/un-serviced settlements in Dar es Salaam is under way. It will be funded by World Bank with US$ 30 million. Its goal is to upgrade 31 communities in Dar es Salaam. Phase I will cover 16 settlements. CIUP implementation started in the beginning of 2005 with a sensitization campaign with the aim to collect the required financial contributions from beneficiary households (Interview with Dr. Nnkya, UCLAS, 03/12/2004). It is obvious that collecting funds before physical upgrading commences is a measure of precaution to avoid what happened in Hananasif where only a fraction of the agreed amount was actually paid by the residents. But as Hananasif landlords have explained, it is maybe not so much unwillingness rather than inability to pay. The various actors responsible for CIUP implementation would be well advised to look into ways of how to help beneficiaries raise their income now, even before upgrading kicks off\(^20\). It might turn out that a well conceived loan scheme for rental housing would not only improve beneficiaries’ medium term capacity to financially participate in the upgrading, but also make them more resistant to gentrification and market-driven displacement that usually occurs when property values increase after

---

\(^9\) Financial and labour contributions: A feasibility study had revealed the willingness of residents to contribute in cash and in kind to the upgrading of their settlement (Nguluma 1997:32). Subsequently, the group of donors set as a condition for the provision of their assistance that the community raise TZS 8 million (USD 15,355) as their contribution to the project. This amount was equal to 5.7% of the investment capital. Total project costs were TZS 24,000,000 (USD 578,740) (Nguluma 1997:40-41). Residents were required to contribute on a monthly basis according to their respective status. Tenants had to contribute TZS 500, house owners TZS 2,000, and small business people TZS 3,000. Contributions were decided by the CDC on the assumption that businessmen/entrepreneurs and tenants would freely contribute if little consideration was placed on the size of businesses and their permanency in the settlements (Lupala 1995). Collections were to be made from 2,350 tenants, 2,094 house owners, and 256 entrepreneurs. By the end of the project, only TZS 540,000 (USD 475), i.e. a fraction of the required amount, had been collected.

\(^20\) Detailed data on rental housing was not included in the recently finalized baseline survey for the Community Infrastructure Upgrading Program (CIUP) in Dar es Salaam. Collecting such information was considered important by World Bank staff and the analysis of rental housing supply by low-income landlords is supposed to be done at the implementation stage (Interview with Dr. Nnkya, UCLAS, 03/12/2004).

5. Conclusions

5.1. Post-upgrading changes in rental housing stock and landlords’ livelihoods

The results from the 2005 landlord survey in Hananasif unplanned settlement show that improved accessibility and infrastructure have encouraged landlords to create more and better rental accommodation. The rent level has increased significantly since 1994. Existing landlords have improved their rental units, added new rooms, and property owners who did not let rooms before 1994 (or those who settled in the area later than 1994) have become landlords. Increase and improvement of the rental housing stock can be seen as positive quantitative and qualitative changes on the supply side of the rental housing market in the settlement after physical upgrading.

On individual household level there have been increases in income from letting rooms. These are the result of higher rents and the increased number of rooms rented out. But in the face of widespread poverty in the settlement, most landlords have remained on subsistence level, i.e. even the now higher rental income is used exclusively for daily consumption and completion of the household’s dwelling. Only few landlords manage to invest savings from collected rents in construction of additional rental units and improvement of the existing building(s). If at all, there is only a very weak tendency of landlords’ upward socio-economic mobility towards petty-bourgeois landlordism, the next-higher level in the Kumar-Model. As many of the landlords interviewed intend to improve and increase their rental housing stock, one of the main characteristics of the petty-bourgeois landlord is fulfilled – the deliberate orientation towards expansion of rental activities with the aim to generate additional income. But the Hananasif case demonstrates that physical settlement upgrading alone is not strong enough as external factor to enable low-income landlords to make this upward move.

The obstacle to achieve such a higher socio-economic level is lack of adequate access to finance. With recourse to Urban (Rental) Housing Market Theory, it can be said that in Hananasif improved access and infrastructure have certainly helped remove some of the economic constraints faced by the rental housing sector and thus improved income earning opportunities for landlords. But this does not apply to the flow of financial resources into this sector. Settlement upgrading needs to be accompanied by loan schemes that meet the needs of 21

Following the improvement of the basic infrastructure services, land and property values in Hananasif have appreciated substantially. Building land which was on average sold for USD 880 to 1,760 went up to over 2,640 (UCLAS and NIGP 2000).

Displacement is caused by the rising costs of housing in upgraded areas and the simultaneously rising attractiveness of these areas to relatively richer competitors on the housing market. Costs may rise directly as a result of increased charges for facilities, taxes, or simply financial participation to upgrading and/or tenure regularisation. Real estate values are bound to increase indirectly, because of additional investments made in shelter, the increased security of tenure and the provision of urban infrastructure. In other words, inhabitants are faced with rising expenses and at the same time, they come under outside pressure to move. The same factors which cause the poor to be expelled attract the better-off. Whether displacement will take place or not depends on a number of interrelated factors which determine the strength of pressures and counter Pressures (Kool et al 1989).
low-income landlords. In the absence of legal titles to the land they occupy, landlords have no access to formal credit that requires collateral.

Two possible models for facilitation of access to finance have been presented:

Short term step loans for incremental rental room construction/improvement should be made available to landlords who are capable of repaying them due to income from various sources. These step loans could be provided by SACCOS.

For poorer households, 1-2 (additional) rental units should be constructed. The monthly rent for at least one of the rooms can service the loan and is thus “owned” by the cooperative housing society. In both models, future rental income is used as collateral for the financial institution.

5.2. Untapped potential and advantages of the promotion of rental housing provision in upgrading programs

The Hananasif upgrading project did not include promotion of rental housing although almost all landlords would have favored participating in a loan scheme to increase and improve their rental housing stock in the beginning of the upgrading project. Enhanced income generation through increased income from letting rooms in the early stages of settlement upgrading could have improved affordability and cost recovery. This again could have had a positive impact on replicability and scaling-up of the upgrading approach tested in Hananasif, but these potentials were left untapped.

5. Concluding remarks on the advantages if integrating rental housing promotion into policies and programs for settlement upgrading

The findings presented in this paper confirm what has already been recognized in the existing literature, that upgrading programs cannot succeed without embracing renting. But only slowly governments and International Organizations are beginning to recognize the important role played by the rental sector in informal settlements (UN-Habitat 2003b).

Current and future upgrading programs in Tanzania and elsewhere in the world should consider the various advantages of supporting low-income landlords to improve and increase rental housing stock.

Urban poverty alleviation and local economic development

Rental housing has not had an adequate place in the debate about poverty alleviation. Renting in most developing countries is an activity predominantly involving two sets of poor people. Poor landlords produce affordable rental housing for poor tenants. Since the rents of one set of poor people help sustain the incomes of another set of poor people, the role that housing plays in income generation and household budgets is very important. (UN-Habitat 2003b:179) 22. A thriving local rental housing market can have a positive impact on the local

---

22 This system of affordable housing provision for the poor by the poor does not function in informal settlements that are dominated by a strong wealth discrepancy between more affluent shelter owners and poorer tenants (Mathéy 1992, 387). Nairobi, Kenya, where 80% of households in unplanned settlements are tenants, presents such a special case with a political economy of urban land characterized by corruption and illicit practices in...
economy: Landlord households have a stable source of income rather independent of external economic shocks. Tenants benefit from affordable and good quality rental accommodation. Local governments can consolidate their revenue base through collection of tax on expanded (rental) property. Seen from another perspective, lending to landlords may be the most effective means to link housing finance to urban poverty alleviation as additional rooms could overcome the short-term housing crisis of low-income households, and the rental income could be used to accumulate savings (Datta and Jones 2001: 344).

Resistance to market-driven displacement of beneficiaries

Running a successful rental business (from home) can constitute a resistance strategy against market pressure that would otherwise lead to the “pricing-out” of low-income landlords who opt for the windfall profits that can be gained through sale of one’s house to better-off households. Having one’s income base in the home and being tied to it through a loan agreement based on rental units and/or rental income as collateral, might function as a counter-displacement factor.

Affordability/cost recovery/replicability

A rental housing loan scheme, implemented in parallel with the launch of an upgrading program can improve affordability, cost recovery and the prospects for the scaling-up of the program to other unplanned areas.

Viability of infrastructure through densification; prevention of new unplanned settlements

If there is no critical overcrowding yet, housing more people in central and peri-central unplanned settlements can have a positive effect as it makes the extension of costly infrastructure networks more viable. With the current pressure on low-income neighborhoods due to population growth and migration in cities of Developing Countries, accommodating more people in these areas might be the only viable alternative to urban sprawl with its high infrastructure and transportation as well as resulting environmental costs. Expansion of rental housing stock through vertical extension, if horizontal extension is no longer possible due to lack of building space, is an idea that should not be excluded from considerations (Ngulumu 2003: 217). Viewed from a different perspective, increased provision of affordable shelter in the form of rental housing spares low-income households an existence in a peripheral irregular settlement as the only area where building land is still affordable. This would indirectly slow the growth of new informal settlements.

Cost effectiveness

Giving loans to landlords may be more cost-effective and supply-elastic than existing housing finance programs that concentrate upon ‘new build’ which need to assemble land and install services (Datta and Jones 2001: 344).

It is hoped that the above research findings, conclusions and recommendations will feed into current and future settlement upgrading programs and related policies supported or led by International Organizations such as World Bank and UN-Habitat, and by bilateral cooperation

public land allocation that has led to the phenomenon of exploitative “slum lordism” (Syagga et al 2002; Kusienya 2004).
agencies. For UN-Habitat, the rental issue is of importance in the implementation of its Global Campaign for Secure Tenure. In this context, the agency calls for more thinking on the trade-offs between security of tenure and affordability of rental housing (UN-Habitat 2003a:xxi). This coincides with the larger framework of the Millennium Development Goals of which Target 11 envisages the improvement of the lives of 100 million slum dwellers by the year 2020. Regionally, the findings may be of interest to the recently launched Sub-regional Initiative “Cities without Slums” for Eastern and Southern Africa, which aims at large scale upgrading of informal settlements.

References


---

23 UN-Habitat itself has in the past not always implemented what it recommended. Andreasen criticizes that the organization did not insist on the integration of the issue of rental housing in the National Programme for Human Settlements Development in Tanzania, for which it served as advisor between 1992 and 1995 (Andreasen 1996: 364).


UNCHS (1989), Strategies for low-income shelter and services development: The rental housing option, Nairobi: UNCHS.

UNCHS (1993), Support measures to promote rental housing for low income groups, Nairobi: UNCHS.


UN-Habitat (2003b), Rental housing: An essential option for the urban poor in developing countries, Nairobi: UN-Habitat.


