Housing Finance Strategies of Informal Settlement Dwellers in Dar es Salaam. Challenges and Opportunities for Low-Cost Housing Interventions.

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The informal settlement of Keko Mwanga (own picture)

ABSTRACT (max. 250 words)

This paper argues that in order to adequately and efficiently address the housing needs of the urban majority, it is necessary to see the informal settlements as a part of the solution and hence to understand the housing (finance) strategies of the low-income groups and the factors that impact on their investment decisions. Based on extensive field research in Dar es Salaam’s informal settlements, this paper provides three exemplary housing biographies, which vividly illustrate the range of actor groups, their livelihood strategies and their housing and housing finance strategies.

Among the actor groups are structure owners, tenants, and ‘quasi-owners’ who live in rather complex ownership constellations, mostly as a result of customary inheritance procedures. Homeowners (and quasi-owners) mainly use savings from household income to finance incremental investments in housing, a good proportion of which is generated at home, emphasizing the advantages of homeownership. Homeowners either invest in their current place of residence and/or in another property, while some make no investments at all. Tenants have to pay their rents; some engage in their own housing projects while in other instances, tenants even invest in their rental premises following agreements with their landlords.

On the basis of these findings, this paper reveals some challenges and opportunities that should be considered when developing low-cost housing schemes or other interventions in informal settlements. These include ownership arrangements after customary inheritance procedures, the importance of home-based income-generation and spatially embedded social networks, and the particular roles of tenants in the context of housing finance.

KEYWORDS housing finance, informal settlements, informal finance, low-cost housing, upgrading

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1 Introduction (max. 250 words)

A wide range of development interventions has targeted informal housing and settlements over the past decades. Nonetheless, informal settlements still house the majority of urban dwellers in the Global South and they continue to grow, simply because they provide the most affordable way of access to urban housing. This paper argues that in order to adequately and efficiently address the housing needs of the urban majority, it is necessary to see the informal settlements as a part of the solution and hence to understand the housing (finance) strategies of the low-income groups and the factors that impact on their investment decisions.

This paper presents insights from intense field research conducted between 2009 and 2014 in Dar es Salaam, which combined a mix of methodological approaches including ethnographic fieldwork, qualitative methods and quantitative interviews with 300 households (cf. Rudić, forthcoming). By covering four informal settlements at central and peripheral locations, the impacts of different interventions on informal housing were studied, too, including the provision of housing microfinance, infrastructure upgrading, land formalisation and eviction. The analysis of this data allows to identify the main actor groups, their housing and housing finance strategies, and highlights crucial factors that influence the decision and ability of actors to invest, or not. To vividly demonstrate some of the most important findings, the paper is structured around the housing biographies of three individuals living in one of the research areas. On this basis, the conclusion outlines the opportunities and challenges for low-cost housing schemes or other interventions in informal settlements.

2 Main Text (1500 words)

Salum’s housing biography (fig. 1) depicts the common housing strategies of most individuals, who start by living in shared accommodation owned by their parents or other relatives. Rural-urban migrants usually rely on accommodation provided by relatives or friends, emphasizing the important role of social networks in the context of housing. After becoming economically independent, these young adults or migrants aspire a more independent life and search for rental housing. To pay his rent for three months upfront, Salum saved money on a daily basis in his savings box. Like in Salum’s case, the first and often the subsequent rental accommodations are usually located in the same neighborhood in which a migrant arrived or in which a person’s parental home was located. Only when moving into homeownership, do people move to more distant locations. This is mainly because the centrally located neighborhoods are already highly congested, and one can only access homeownership through inheritance or the purchase of a house, which is very difficult to finance. Instead, the majority of homeowners, like Salum, prefer to finance investments incrementally and mainly rely on their income from informal sector occupation. Salum, for instance, sells fried fish in his neighborhood. However, between generating income and spending on construction, people still need periods of saving. To finance housing, therefore, most homeowners save their money in kind, often literally saving cement-bag by cement-bag. Salum’s case is exceptional in this respect, since he successfully used a local Upatu group (a rotating savings and credit group) to accumulate his savings before investing them in incremental construction. However, fearing to lose his income, which he continues to generate in the neighborhood where he lived as a tenant, Salum waited quite long to move into his own house.

Ali’s housing biography (fig. 2) differs from Salum’s, mainly because Ali is already a mzee (elderly person) and therefore faced very different conditions when he arrived in the city. Nonetheless, he also went through the stages of sharing and renting housing in the same neighborhood, but he was quickly able to move into homeownership, since it was still easy to find a plot for sale in the centrally located settlements at that time. The house was rather a hut (banda) made from mud and poles, and shortly after moving in, they replaced the thatched roof with corrugated iron sheets and improved the walls. In the 1980’s, Ali worked as a waiter at a publicly owned hotel, but lost his job in 1994 when the hotel was privatized. However, he was granted a compensation payment, which he used to replace the mud and pole structure with cement-bricks and to add new rooms. He started to rent out most parts of his house, which helped him generate income and access financial resources that he invested in a water tap on the plot. One year later his mother became a widow and decided to move in. She financed the construction of two rooms, which were rented out after she passed away a few years later. Although he sometimes worked as a casual laborer, most of the household income was generated at home: by renting out and by selling water. Life was hard and therefore no investments were made until 2007, when some of his fellow party members told him about a home improvement loan provided by a local NGO, which also provided support to access legal title deeds. The loan of about 100 Euros was used
to replace leaky roofing sheets, to plaster the interior, repair the floor and to buy a new door. Consequently, Ali increased the rent. Then, one of Ali’s tenants asked him to improve the interior of her rental units, too. Since Ali was still repaying his microloan, the tenant offered to finance the investments herself, and they agreed to deduct the spent amount from her rental payments. When Ali repaid his microloan, he decided to buy a second plot at the urban fringe for his retirement. Using the rental payments, financial support from his daughter and the help of a related craftsman, he financed the construction of a two-room house with a store and a mini-shop. After replacing the old pit latrine at his old house in the city center with the help of his daughter, Ali moved to his new house, where his wife and son had started to operate the mini shop and kept several chicken.

The last case concerns Mohammed, who, in his early 40s, lives as a single in the very same house he was born (fig. 3). He worked as a casual laborer and operated a small mini-shop in front of the house, where he sold groceries. After his father died in 1999, the three sisters and four brothers sat together with their paternal and maternal relatives to discuss the inheritance of the house. The house had 14 rooms, so each of the siblings inherited one room for their personal use and one additional room to let. Two of the sisters, who had married and moved out, left their personal rooms with their brothers who have wives and children, but they continue to collect the rents of the rental units. If Mohammed and his siblings invest in the house, they have to negotiate an equal amount that can be afforded by everybody. Usually they therefore use their rental income and contribute their own manpower. They would also borrow to each other, if one sibling would be unable to pay. Mohammed perceived his relationship with his siblings as very important. They help each other in cases of emergency and they share the responsibility of financing repairs and maintenance. However, he also considered this shared ownership to be an obstacle to larger-scale investments, since not everyone is willing or able to contribute more substantial amounts. As a consequence the condition of the house has been deteriorating over the past years.

These biographies show, that the main actors in the context of housing finance are structure owners, tenants and ‘quasi-owners’, who live in rather complex homeownership arrangements as a consequence of customary inheritance procedures, like Mohammed. Owners and quasi-owners, representing 44% and 14.4% of all interviewed households respectively, either invest at their current place of residence and/or at another location, like Ali did. This strategy is not an exception: about one third of all interviewed homeowners (N=110) own another plot somewhere else, and one fifth intend to relocate in the future. Others do not invest in their homes, even though they might perceive their housing conditions as inadequate. The major sources of housing finance are based on different ways of saving from household income, whereas credits are only used in isolated cases.

Not making investments is not exclusively tied to lacking sufficient income as the differences between owners’ and quasi-owners’ investment strategies demonstrate: Although they have on average similar household incomes like owners (about 200 Euros per month for seven household members) and similar income sources (about 50% engaged in petty landlordism), quasi-owners are less likely to have financed recent investments (53.3% vs. 63.6%), and if they invested recently, they invested considerably less money (on average: 250 Euros; median: 150 Euros) than owners (on average: 575 Euros; median: 250 Euros). Consequently, they live under worse housing conditions and are almost half of them have relocation plans.

Tenants (41.6% of interviewees), often overlooked in the context of housing finance, also pursue different strategies: often they invest in their own housing at the urban fringe (potentially 36.5%), while being obliged to regularly pay for rental housing. Additionally, in one out of six houses covered by the survey, tenants invested in the improvement or construction of commercial or residential rental premises. Consequently tenants provide a major source of housing finance for landlords, either by paying their rents (usually in semi-annual or annual installments), or by directly financing improvements and construction.

Finally, the biographies illustrate the importance of home-based income generation. Like many, Salum did not generate income at home, but in or close to his neighborhood, where he established close social ties to customers and colleagues. Shifting his business to his new home at the periphery was not an option, since demand is still low and because he was not yet familiar with his neighbors. Instead, he spent at least one Euro and three hours per day extra on commuting. Social networks, which are to a large extent location-bound, are therefore not only important when it comes to accessing (information on) housing, but also in terms of income generation. Engagements in petty landlordism provide the most regular and reliable home-based income source, and hence regular access to larger lump sums. Generally, however, the opportunities of home-based
income generation are rather vested in homeownership, since 70% of all owner households pursued any kind of home-based economic activity, compared to only 18.3% of tenants. However, owners and tenants engaged in home-based income generation earn 47% and 22% on average more than those who do not. Moving to another location can therefore tremendously weaken the household’s income basis.

3 Conclusion (max. 500 words)
This paper identified three major actor groups in the context of housing finance and provided some insights about the housing and housing finance strategies of informal settlement dwellers in Dar es Salaam. On this basis, some challenges and opportunities for development interventions, like low-cost housing schemes, can be identified.

The paper showed that a considerable (and most probably growing) proportion of households, called ‘quasi-owners’, owns housing, but may not be willing to invest, because homeownership is shared among several individuals. This group has not yet been at the focus of development interventions and will certainly pose challenges to conventional interventions. Inheritance, however, often provides the only way to access homeownership for many and guarantees access to housing for a large number of individuals more or less free of charge.

Homeowners were shown to use different ways of accumulating own savings to finance investments. This strategy allows for a maximum of flexibility: investments can be postponed or accelerated depending on the household’s income situation. Very few have experience with microcredits, and many fear the social consequences of repayment failure. Microcredits can be suitable to support the incremental construction process, to improve housing conditions and even household income, as it was shown. Many products are, however, expensive and rather provided to moderate-income households. Small loans coupled with trainings and financial advice, like in Ali’s case, are very helpful for clients, but too expensive for institutions. Many institutions therefore focus on low-cost housing schemes to help tenants move into homeownership at the urban fringe.

As it was shown, tenants play multiple roles in the context of housing finance, which could provide many opportunities for home (and income) improvements of landlords. Low-cost housing interventions, however, usually reduce tenants to their role as future homeowners, and fail to consider the impacts of moving to a distant and peripheral location on household income. Instead, assessments of creditworthiness based on the household’s income situation are usually made before moving to the new location without considering associated costs and reduced productivity. Moreover, house designs hardly provide adequate spaces for petty landlordism or other home-based economic activities, while in some schemes such activities are even prohibited, depriving new homeowners of the potential to diversify household income.

Even if low-cost housing schemes offer comparatively cheap access to homeownership, households need a reliable and regular income source at least for the time of making repayments. Thus, most low-cost housing schemes are ‘low-cost’ in name only, since such houses are usually either too expensive or—even if houses are cheap—not financeable by the vast majority. Hence, it is once more important to emphasize that informal settlements provide not only access to affordable and financeable housing, but also to various opportunities to generate income. Because of their diverse mix of residential, commercial and social functions, they are lively urban places, which are hardly generated by top-down planning. They should be rather viewed as part of the solution to house the majority of low-income urban residents instead of being permanently problematized.

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References
Fig. 1: Salum’s housing and housing finance biography
Fig. 2: Ali’s housing and housing finance biography
fig. 3: Layout of the house owned by Mohammed and his siblings and its spatial utilization

Draft: C. Rudic; Graphic: J. Blauhut