

# Towards Urban Poverty Alleviation in Tanzania: A case for the Use of Housing Licences to Access Credit

## ICBE POLICY BRIEF

By

**Riziki Silas Shemdoe**  
Institute of Human Settlements Studies,  
Ardhi University  
Dar es Salaam, Tanzania



Creative Commons by HANs on Experience

## EXECUTIVE SUMMARY

In Tanzania, mainstreaming or formalisation of the informal sector, was started with the aim of increasing participation of the informal businesses in the country's economy.

This policy brief highlights the willingness of the community to use housing licences obtained in the process of formalisation as collaterals for loans.

The policy examines whether financial institutions accept housing licences as part of the documents requisite for collateral in order to access loans.

Findings indicate that people who have been involved in the formalisation process in Dar es Salaam have been given formal licences to own their houses for a span of only two years but this was later extended to five years.

Some of the financial institutions have expressed willingness to accept such licences. This is however on the condition that the licensed houses are insured before the housing licence document is accepted for loan processing.

The phenomenon of insuring houses is not common in Tanzania, especially in the informal settlements. This paper highlights the challenges and how best the programme can be improved and implemented.

### HEADQUARTERS

TrustAfrica  
Lot 87, Sacré Coeur 3  
Pyrotechnie x VDN  
BP 45435  
Dakar-Fann, Senegal

T +221 33 869 46 86  
F +221 33 824 15 67  
E [info@trustafrica.org](mailto:info@trustafrica.org)  
W [www.trustafrica.org](http://www.trustafrica.org)

The ICBE Research Fund is a joint initiative of TrustAfrica and the International Development Research Centre.

## INTRODUCTION

In today's world, most of the world's poor population live in informal settlements, occupying land they do not own and working in small informal businesses and relying on friends for loans.

Within the sphere of land ownership, informality is often equated with lack of title deeds. It is reported in Latin America, for example, at least one-quarter of urban residents are either squatting or living in unauthorized housing.

This phenomenon is actually typical in much of the African urban areas, including Dar es Salaam, Tanzania. It is widely recognized that reducing informality requires a series of complex, in-depth policy initiatives and structural reforms that create real incentives for governments, institutions, and individuals.

Such initiatives would ultimately improve the capacity of national and local governments to

**To improve the investment environment for small and informal enterprises in developing countries, it is critical to reduce tenure insecurity plaguing the urban poor.**

generate sustainable growth. It is argued by Field (2005) that in the absence of legal claims to residential property, a large fraction of small business owners live in fear of eviction by the government or displacement by residents with competing property interests.

To improve the investment environment for small and informal enterprises in developing countries, it is critical to reduce tenure insecurity plaguing the urban poor. Property titling programs and legal reforms aimed at regularising informal neighbourhoods, have made important gains in this direction in several parts of the world.

In Tanzania, the process of formalising the informal sector has just started. This has been based on the premise that there is no way Tanzania can escape poverty if the overwhelming majority of its citizens

do not have the legal tools to create wealth. There is need to encourage private and public partnership in housing, as well as lay a strong property system that would protect private property.

Formalisation of the informal sector under the Tanzania Property and Business Formalization Programme (famously known as MKURABITA in Kiswahili) is among a raft of proposals aimed at increasing the participation of the poor in the formal economy of the country.

The programme aims at encouraging poor people to document and register their land, property and businesses. Once this basic form of formalization has taken place, some poor people may have the opportunity to use their property as security for loans to expand their businesses and improve their livelihoods.

As the process of housing formalization in the informal settlements is ongoing, little is known on the expectations regarding the use, acceptability and validity of the licences in the light of accessing credit facilities.

Although residents may be issued with title deeds, it is still a challenge on whether they are willing to use the titles to secure loans. As reported by Nyamu-Musembi (2006), studies carried in Kenya revealed that very few people whose properties were formalised were willing to use their titles to secure loans.

According to the findings of the study conducted in a Sub-location in South Nyanza, Western Kenya, it found out that only three percent of the 896 titles were used in securing loans seven years after the formalisation process. Moreover, it is reported in Shipton (1989) that in the sub-location of Embu district in Eastern Kenya, only 15 percent of the titles had been mortgaged to secure loans 25 years after the formalisation process.

The small number of communities who sought for loans were necessitated by the fact that some of their community members were fearful of losing their properties, as they were not sure how they will service the loans and there was no culture in the community of mortgaging their properties in the areas.

## RESEARCH FINDINGS

Findings from the present study show that people involved in the formalisation process in Dar es Salaam have been given the formal licences to own their property for a span of only two years which has just been extended to five years recently.

According to the study, few people were willing to use their assets as collateral when seeking loans in the pilot programme area. This is because people are hesitant about their ability to repay the loans and fear jeopardising the properties that they might have issued as collateral. Furthermore, Tanzanians don't have a culture of using their homes when taking out loans. Many family members don't approve of heads of households using the home as collateral. A number of people in the community who are a part of this case study have been held back because of this. The study found that while some financial institutions do accept such loan documents, they are generally unhappy with the two-year duration of the documents.

Some of the lending institutions required that the loan applicant's home be insured before the loan was accepted for processing.

Financial institutions that accepted housing licences as collateral are National Microfinance Bank (NMB), Bank of Africa (BOA), Akiba Commercial Bank, CRDB Bank Limited, PRIDE and CEDA.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

There was a short duration and validity of the residential licences, which is two years, compared to the common title deeds which have a minimum of 33 years. This made many people think that the licence is of little use to them and that it's just another way for the government to collect taxes from the community.

Due to the short-term validity of the licences, some financial institutions are becoming hesitant and unwilling to accept the licences as collaterals for loans.

**People are hesitant about their ability to repay the loans and fear jeopardising the properties that they might have issued as collateral.**

Perception of the community in the area that by just having the licence without any business you can secure loans is becoming a problem to the financial institutions. This perception need to be addressed widely by informing the community involved in the process that there is no financial lending institution that can just issue a loan without seeing the existing business as well as a business development plan in the area.

The project has not covered all the squatter settlements in the respective municipalities, thus some of the communities think that this is not justice as to why they do pay the fees while other neighbouring communities are not paying. Therefore they count this as a double standard.

Willingness of the community to use the licences for loan processing is still very low hence more sensitization is needed.

### Recommendations

- Improve sensitisation and popularisation of the project among the residents. This should also go with advertisements in the media regarding the project and its anticipated outcomes.
- Increase the validity of the term of the licences close to the minimum title deeds. This will allow the financial institutions to offer meaningful loans to people who are intending to use their houses as mortgage.
- The government should liaise and assure financial institutions on the credibility of the residential licences so that they may accept them as collaterals for loans.
- Upgrade the entire project to include actors in the Municipalities who are the actual implementers of the project rather than the current set up where the project is seen as an extension of the Ministry.
- The project should therefore be spread all over the municipalities in order to reduce the perception of a double standard which has been a major problem for some of the residents and has caused them to decline registering their houses.
- Communities should also be taught that having a valid housing licence does not mean that one can just access a loan from a financial institution. One is required to have an ongoing business and it is mandatory that one's business plan be presented to the financing institution.
- Community members should be informed about the need to insure their properties, particularly when using their homes as collateral for a loan.

### REFERENCES

Field, E., *"Entitled to Work: Informal enterprises in Urban Peru"* (Special Report for World Bank Institute, 2005).

HLCCEP, *"High Level Commission on Legal Empowerment of the Poor: Overview Paper"* (2006) [http://www.undp.org/legalempowerment/pdf/HLCLEP\\_Overview.pdf](http://www.undp.org/legalempowerment/pdf/HLCLEP_Overview.pdf) visited on 21 June 2011.

Nyamu-Musembi, C., *"Breathing life into dead theories about property rights: de Soto and Land Relations in Rural Africa"* (Institute of Development Studies, 2006). IDS working paper 272

Shipton, P., *"Depts and Trespasses: Land, Mortgage, and the ancestors in Western Kenya"* (Africa, 1992), 62(3): 357.

United Republic of Tanzania: *"Property and Business Formalization Program"* (United Republic of Tanzania Presidents office, 2005).