A STUDY OF HOUSING FINANCE AGENCIES IN NAIROBI, WITH SPECIAL REFERENCE TO THEIR ROLE IN LOW-INCOME HOUSING.

BY

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DECLARATION

This Thesis is my original work and has not been presented for a degree in any other University.

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DEDICATION

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ABSTRACT

Housing problems of one form or another exist in countries all over the world. However the magnitude, the scope, dimension, the fundamental causes vary from one country to another. Kenya, like other countrie has come to realise that housing is an issue that is complex in nature and that it is too central to national development to be left solely to private initiatives. As such since Independence the Government has been very much involved in providing solutions to the problems of housing. Other than making the policy the Government has made many initiatives to finance housing. Since it is not possible to adequately solve these problems the Government has involved many other finance agencies to try to ease the problems of housing.

The study focuses on the role of the housing finan agencies in provision of housing for Nairobi population. There exists problems regarding the policy framework within which these agencies operate. There also exists a problem in the terms and conditions laid down by these finance agencies. These terms and conditions have affected provision of housing and especially housing for low-income groups.

Having noted the above problems the author examine the activities of eight selected finance agencies since Independence. These housing finance institutions consis of both private and public finance agencies. A special attention was paid on the policy made by the Government and also the terms and conditions laid down by the Housing Financing Institutions.

The study established that the policy has been vague and unrealistic and has not met the housing need of the majority of the Nairobi residents who include the low-income groups. The policy statement is not accompanied by programmes and finances and the agency to implement these programmes. As a result most of the projects implemented have favoured the middle and high income groups. It is the author's contention that these terms and conditions are too high and discriminating against the low-income groups. The terms are highly restrictive and tend to eliminate a majority of the low-income urban population who cannot meet the requirements.

In view of the above problems the study recommended that there should be a clear cut policy on low-income housing. This should be accompanied by programmes and finances for implementation. Housing standards and design should be compatible with the incomes of the urban poor population. The housing cooperatives who have a great potential should be encouraged.

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CHAPTER 1

INTRODUCTION

Housing finance is of great importance to the development of housing in any country. Both historically and institutionally development in the housing finance sector has been different from that of the physical provision of housing especially among the low-income groups, where not much has been done. It is evident that there is a critical shortage of housing in general and this has to do with the overall housing policy but the problem is more critical among the low-income groups who are not able to meet the requirements of getting finance from the lending institutions so as to have access to housing.

It is with this view in mind that the study has dealt with selected housing finance agencies in Nairobi and how these have mobilised and allocated resources to meet the increasing need for housing. The problem of housing is more acute in the developing countries particularly in urban areas which are marked by rapid population growth, scarce job opportunities and inadequate welfare systems. Large uncontrolled settlements of substandard housing occupied by the low-income groups are the result. The development of these uncontrolled settlements have a lot to do with the availability of finance for housing as a result of which finance institutions play a vital role in provision of housing. This role is mainly important because traditionally housing finance is very institutionalised and also due to large sums of money and long periods of time involved in acquiring finance.

In Kenya the private and public sectors have almost an equally large share of the market for housing finance. This situation has developed as a result of government policy to intensify the provision of housing for the lower-income groups which the private sector financial institutions have for long neglected. The existing private institutions, therefore have been lending funds mainly to middle and high income borrowers where there is less risk and lower administration cost per unit. Consequently existing institutions in the private sector have prospered and new institutions have entered the market for financing housing developments. To examine the above situation the study focuses on:

(a) the role of housing finance agencies;

(b) the nature of their activities in the field of housing in Nairobi, with special reference to their role in low-income housing;

(c) the extent to which the activities of the financing agencies are adequate for and appropriate to the nature and scope of housing problem in the Kenyan society; and

(d) what the finance agencies have done to meet the increasing need for housing especially for the low-income groups.

1 PROBLEM STATEMENT

Housing finance is very important to the development of housing since housing requires large sums of money. Housing finance institutions have terms and regulations for providing finance to individuals or groups, in terms of loans and mortgages and how such finances will be recovered. These terms outline who can get the finance because this depends on whether the person can meet the requirements or not. This kind of arrangement has tended to eliminate the majority of urban population which is poor. Therefore, there exists a problem of what is to be done for these people who comprise most of the urban dwellers and do not have easy access to such finance for housing.

Hand in hand with this financial situation goes the continued acute shortage of housing generally and especially for the low-income groups. There also exists a problem in regard to the role the housing finance agencies have played in relation to provision of housing for Nairobi population. To understand these problems the study focuses on the following aspects of housing finance agencies.

(a) present the past activities.

(b) outline the current activities.

(c) state the achievements of these activities.

(d) identify problems faced by the agencies.

(e) identify the areas of housing need that have hitherto been neglected or given low priority.

(f) review future housing development plans.

(g) propose and suggest for the finance agencies to better use of their efforts and improved performance in the area of housing the urban poor.

Since these agencies do not exist in isolation the study also reviews the process of urbanisation which shows that the problem of housing shortages has developed over a period of time.

Another problem is in regard to housing policy and programmes, which are outlined in the five year development plans. There exists a disparity between the policy and the actual housing output to meet the housing need. For example, during the 1970-74 development period the actual housing output was 25,000 units as compared to the planned output of 50,000 (the estimated urban housing need being 10,000 units per year over the five years). This output was not only lower than planned but it was out of reach of the urban poor. Between 1974-78 plan period the output was even worse for the actual output was 9,000 units (out of which 3,000 were serviced plots) as compared to the planned output of 160,000 units. This shows that there is a problem because the actual output is not in line with the planned output.

The other problem is at policy level since the funds allocated to housing by both the government and the other finance institutions are inadequate. All in all the low-income groups have suffered a lot as shown by the increasing number of substandard housing and the acute problem of housing shortage.

1:2 JUSTIFICATION FOR THE STUDY

Housing finance is essential for housing policies and programmes to be implemented. As the continued need for housing increases with the increase of population, studies in housing finance become more and more important. The apparent shortage of appropriate housing for the low-income groups, who comprise the majority of the urban dwellers, justifies the need to study the subject of housing finance. This study points out the problems of housing finance and outlines some recommendations to overcome some of these problems. It will be a source of information for various people involved in housing development. Without proper research and knowledge about the situation policy decisions would not be realistic and would still continue to be a set of subjective statements which will not improve the situation.

1:3 HYPOTHESIS AND ASSUMPTIONS

The following assumptions were made:

(a) that finance institutions play a very major role in provision of housing;

(b) that housing finance is very institutionalised and not easily accessible to the urban poor;

(c) that majority of the poor urban families cannot pay immediately and completely for housing out of their savings and yet they cannot do without a house;

(d) that the rigidity of conventional finance institutions in requiring title deeds to registered property has had a negative effect on the availability of funds especially for the low-income groups some of whom have no proper security;

(e) that the terms and regulations laid down for acquiring loans are not suitable for the low-income groups and that the terms are suitable to serve the middle and high income groups instead; and

(f) that housing for the poor is not an economic proposition because the poor cannot pay for the housing and would be a high risk investment.

1:4 OBJECTIVES OF THE STUDY

The main objectives of the study are to:

(a) identify and describe the role played by eight selected finance agencies in Nairobi in provision of housing since independence and areas that have been neglected or given low priority;

(b) analyse and evaluate the past and current activities of these agencies in terms of the achievements and effectiveness of these activities with special reference to low-income groups;

(c) summarise the major findings from the above analysis and evaluation; and

(d) recommend proposals.

1:5 SCOPE AND ORGANISATION OF THE STUDY

Although the problem of housing is multi-faceted, this study emphasises the role of housing finance agencies. Housing finance agencies in Nairobi have been generally studied with a detailed analysis of those specifically involved in the low-income housing. The major agencies studied include:

(a) Ministry of Urban Development and Housing (MUD & H);

(b) National Housing Corporation (NHC);

(c) Nairobi City Council (NCC);

(d) World Bank;

(e) United States Agency for International Development (USAID);

(f) Housing Finance Company of Kenya (HFCK);

(g) East African Building Society (EABS);

(h) Housing Cooperatives.

The study is organised in six chapters. Chapter One introduces the study. It presents the problems statement, justification for the study, Hypothesis and assumptions, objectives, scope and organisation, limitations of the study, review of the related literature and research methodology.

Chapter Two gives the historical development of urban housing in Kenya. It analyses urbanisation in Kenya, the historical background of Nairobi town, urban housing policies and programmes as contained in the development plans from 1964-1983.

Chapter Three presents the activities of the public housing finance agencies which includes Ministry of Urban Development and Housing (M.U.D. & H.), the National Housing Corporation (N.H.C.), the Nairobi City Council (N.C.C.), the World Bank and the United States Agency for International Development (U.S.A.I.D.)

Chapter Four analyses private finance agencies which includes the Housing Finance Company of Kenya (H.F.C.K.); the East African Building Society (E.A.B.S.), and the Housing Cooperatives.

Chapter Five analyses and evaluates the main finding and Chapter Six has summary, conclusion and recommendation.

1:6 LIMITATIONS OF THE STUDY

The basic constraint in carrying out this study has been lack of enough time and information. There is exists lack of enough information about the particular housing finance agencies. This has been the major limitation since most of the information was collected from existing literature.

Another frustrating problem was non-availability of some of the officials to be interviewed and their reluctance to give some of the information required.

1:7 LITERATURE REVIEW

Financing of housing is an essential element in the provision of shelter. According to Robinson the rapid growth of the urban centres creates increasing housing problems and consequently there is a competition for scarce capital and a growing awareness that the day of individual lender is past.[1] Financing has become impersonal and demands larger sums of money thus in many countries public and private institutions whose sole or primary purpose is the accumulation of financial resources for the financing of shelter construction and acquisition have been formed. However, the type of approach and degree of investment varies from one country to another.

According to a report done by United Nations (Ramachandra) one of the conclusions from four regional meetings on Human Settlements Finance and Management[2] in Nairobi, Mexico City, Manila and Al-Ain, was that the plans and programmes for the improvement of housing and human settlements ultimately depend on a regular flow from this sector through a system of financing institutions which facilitate the mobilisation of personal saving and make credit available to invest in this sector. All over the world the mobilisation of resources for housing finance is sometimes achieved through compulsory savings such as pay roll taxes and employer contributions, as well as through voluntary systems such as building societies, savings and loans, cooperatives, credit unions, savings banks, pension and insurance schemes. Many countries have established institutions like National housing banks, mortgage banks, secondary mortgage institutions and a range of other facilities for fostering and enabling flow of resources to this sector.

The degree of government direction, intervention, supervision and incentives provided for savings, mobilisation and investment in housing and human settlements vary considerably from country to country. It has become increasingly evident that developing the establishment of specialised financing institutions for mobilising resources and savings is indispensable if any real progress is to be achieved for housing and human settlement improvement. The government has a direct and indirect involvement in housing finance. According to the Economic Commission for Africa it acts "Indirectly through the control of all the economy as a whole, the overall level of economic activity, the obtaining of credit, the level of interest rates.(3) Regulations on building and town planning also have an effect, directly the government should be involved in implementing public housing programmes for the lowest income groups. It is argued that the allocation of resources to housing implies non-allocation of resources to other sectors of economy which may be more productive. Concerning this situation Christian James says that it is argued that housing is a social investment or consumption good rather than a capital good. This view has in the past regulated housing investment to second or third priority in economic development strategies and has encouraged the use of technologies of shelter finance that dilute the positive economic effects that can be derived from housing investment. This then leads to giving less funds for housing inspite of increased population who have no housing and hence increased shortage of housing. This is evident in the third world countries and indeed in Nairobi where due to less flow of resources the low-income groups have found the solution to their housing need in slum and squatter settlements and overcrowding.

Housing Finance in Developing Countries

Talking about the development of housing finance problem in developing countries Christian says that commercial banks and commercial banking activities have been present in developing countries at least since

European Colonial period. Then they served the financial needs of commerce and tended to operate from Europe not from colonies themselves. In the post-colonial era the "financial sectors of most developing countries consisted of a commercial banking system, the internal lending agencies and multinational corporations replaced the merchants bankers in supplying venture capital and household sector remained essentially as it had been. Its financial need met only through informal and traditional mutual aid schemes and the local money lenders." (4)

He continues to say that this process overlooked the household sector as significant source of domestic savings and little or no encouragement was provided for the development of household-oriented financial institutions. Despite this urban population increased and created housing needs which were manifested in overcrowded, unsanitary living conditions and the sprawl of squatter settlements in urban centres throughout most of developing world. Many governments failed to recognise this need, but most still convinced that their people were too poor to save or repay housing loans, responded with heavily subsidised public housing projects. With few exceptions the required capital expenditures quickly outstripped government budget allocations without significantly reducing housing need or benefiting a significant number of families:. (5)

Contrary to the argument that they cannot afford any type of housing these families construct their own dwellings, rudimentary though they may be, largely from their own incomes. Thus "households remain the largest untapped source of savings in developing countries, largely because institutions have not emerged to provide financial services to individual families.[(6)]

Historically some of the institutions for example building societies and savings and loan banks were structures of mutual self-help or cooperatives' organisations and were strictly community based. The members of the society or the association were owners and came together for the principal purpose of accumulating savings capital from their members to permit loans for home construction or purchase. Home ownership was the end and savings was the means. As the members continued to increase these organisations continued their existence. Modern finance institutions recognise this principle of operation and actively seek to develop a broad deposit base for their end activities.

Certain characteristics of housing finance have emerged with time and although seeking to provide home-ownership have eliminated majority of people from having access to finances. One of these characteristics is that "the purchase of construction of a house represents an initial outlay that is quite large relative to the income stream that is at the disposal of the majority of households. To perform their economic functions, housing finance institutions must, therefore provide long term credit."[(7)] These terms tend to eliminate the majority of the population who are in the low-income groups. Other aspects which are related to this include the fact that the institution must be able to cover its operating and administrative costs, including the interests paid on deposits and provide the additions to its capital reserves. These add to the amount of money needed and make it harder for the low-income groups to have access.

This is more true because the effective demand for mortgage credit depends on what families are willing and able to pay. Given the fact that housing is in very short supply relative to the need in virtually all the developing countries and given the fact that housing finance systems, where they exist, are the only source of long-term mortgage credit, the terms quoted on mortgage loans will still determine how many families are able to afford to borrow.

There are several loan conditions in different institutions and these are expressed in the loan terms Some of the most important are:

"(i) Interest rates and fees;

(ii) Minimum ratio of down-payment to value (or maximum loan value ratio);

(iii) Maximum Maturity;

(iv) Maximum (or minimum) ratio of mortgage payment (or total housing expense) to borrowers income;

(v) Maximum loan amount."[8]

A second category of loan conditions are explicit restrictions on the purpose to which loans are put. For example some loans could be restricted to newly constructed properties. A third category of loan conditions are restrictions and borrower characteristics: such restrictions may stipulate for example, that the borrower must be the occupant, or that his income cannot exceed some specified absolute amount, thus the borrower must have a savings account with the lenders, etc. The fourth category of these conditions are restrictions on the characteristic of the property securing the loan. For example such restrictions may cover structural features of the property in greater detail. The applications of these is determined by the concern of a particular institution.

For example, a building society's concern is with the security of their investors' money. Given that they hav reversed the normal process of borrowing and lending, i.e. they borrow money on short-term deposit and lend it on long term mortgages, they have adopted extremely strict conservative procedures to ensure that the confidence of their investors is not shaken. On any advances therefore they are concerned to evaluate the security provided by both the borrower and the dwelling on which the mortgage would be granted. A borrower is evaluated in terms of income, savings, membership of the society to which application is being made, career prospects and income stability.

Guttentag [9] argues that all the stated conditions affect loan allocation, even though in most cases this is not their main objective. For example conditions designed to protect the lender against excessive risk, such as high downpayment requirements require that the borrower be credit worthy and requires that the profit provides good security for the loan, impinge most heavily on low-income households. Policies to change interest rates and fees high enough to assure adequate earnings to the lender also have an adverse effect on allocation. The same is true of short maturities designed to provide rapid loan repayment. Thus, an official institution that does not have an explicit allocation policy will tend to impose loan conditions that bear with disproportionate security on low-income households. This is particularly so in developing countries where allocation policy hardly exists or is practiced.

In conclusion the limitations of the housing finance institutions in relation to low-income groups in developing countries can be summarised as follows: Among others as already said is the restrictive nature of their criteria and terms for granting loans. These policies tend to be applied in a conservative manner since these institutions must safeguard the capital entrusted to them. Others include high eligibility requirements, regular dependable employment, restrictive loan terms. These restrictive loan terms include minimum size of loans which could be higher than the maximum size the borrower can afford, down payments which are generally beyond the paying capacity of low-income applicants who may otherwise qualify for conventional housing, maturity of mortgages, rate of interest, and amortzation of payments which can also be burdensome to low-income families who otherwise qualify for some loans. All these limit the low-income groups from getting access to finances for housing development because they cannot reach the required minimum.

Housing finance in Kenya is similar to the above descriptions of housing finance agencies in developing countries- For example, borrowing in Kenya can be divided into two categories that is public and private finance agencies. Both participate in providing finance for housing for Nairobi residents. However, most of the private finance institutions have not been involved in low-income housing. It is argued that the reason for this lack of interest on the part of private financial institutions is that housing finance in Kenya, has been a "sellers market". As a result the existing institutions have been able to lend all their funds to middle and upper-middle income borrowers where there is less risk and lower administrative cost per unit lent. Consequently existing institutions have prospered and new institutions have entered the market for financing higher income housing. (10)

The public sector which is directed by the policy in the development plans has been channelling more funds into servicing of sites for private construction. Public funds are channelled through National Housing Cooperation who either develop directly or gives it to the local authorities and private individuals.

Apart from financing an increasing number of serviced sites and rental and tenant purchase units through NHC, the public sector is directly supporting Housing Finance Company of Kenya with funds for medium and high cost housing. The public financial institutions include the Ministry of Urban Development and Housing, Institutional Housing, pool housing, government sponsored home-ownership, National Housing Corporation and the loca authorities. Funds for housing in the private sector com from financial institutions, employers and private individuals.

The financial institutions engaged in mortgage lending are either registered under the Banking Act, the Companies Act or the Building Society Act. These private institutions mainly serve middle and high income groups. This is mainly because they are profit making organisations and want to be involved with individual or groups where there is limited risk and less administrative cost. These agencies have conditions and regulations which limi the low-income groups. They are mainly not in the busine of providing housing for low-income groups because this is assumed to be the responsibility of the public sector. This situation has influenced the provision of housing for the Nairobi residents where the housing provided does not meet the housing need and is also not accessible to most of the urban poor population. The following chapters will then show the historical development of Nairobi and an analysis of eight selected finance agencies.

1:8 RESEARCH METHODOLOGY

Mainly the existing information and literature were used to show the activities and performance of eight selected housing finance agencies since Independence. Special attention was given to the terms and conditions of providing finance for housing. The information was basically from the documents ot these agencies and related literature. In addition to this various selected finance agencies' officials were interviewed. A questionnaire was also used (see Appendix 1).

FOOTNOTES

(1) Robinson H. "Housing finance operations in Developing Countries" in United Nation Report. Habitat and Human settlements formulation. Report of the Regional meeting for Africa on Human Settlements. Finance and Management, Nairobi, 10-13 October, 1978.

(2) Ramachandra A. "Policy or Experience in Public and private sector in housing development in other countries." United Nations Centre for Human Settlement, Habitat and Human Settlements Foundation. Final Report Asia and Pacific Regional Conference on Human Settlements Finance and Management 1979.

(3) Economic Commission for Africa. "Technical and social problems of urbanisation in Africa with special emphasis on Financing of Housing." German Foundation for developing countries. 8-23 January, Addis Ababa, 1969. p.15

(4) Christian J. W. "Housing Finance for developing Countries." prepared for international union of building societies and saving Association, Chicago, Illinois, 1980. P.2

(5) Ibid, P.4

(6) Ibid, P.5

(7) Ibid, P.12

(8) Guttentang J. "Financing Housing and Human Settlements in developing countries." The loan policies of official Institutions.In United Nations Report, Habitat and Human Settlements formulation, Report of the Regional Meeting for Africa on Human Settlements, Finance and Management, Nairobi, October 1978. P.1

(9) Ibid, P.17

(10) USAID, Office of Housing. "Kenya Shelter Sector Study and AID's Experience". Nairobi, August 1979.

CHAPTER 2

2:0 URBAN HOUSING IN KENYA

2:1 INTRODUCTION

This chapter gives the historical background of the development of urban housing in Nairobi., Urban housing problems in Kenya have their roots in the process of rapid urbanisation. To understand the nature of these problems the chapter briefly discusses the urbanisation process in Kenya, historical development of the city of Nairobi before Independence and finally urban housing policies and programmes since Independence.

2:2 URBANISATION IN KENYA

Apart from limited areas large-scale urbanisation in Africa as a whole was initiated almost entirely as a result of colonial rule. In Kenya before the construction of the Kenya Uganda Railway there was virtually no urban settlements except along the coastal area. The human settlements pattern were highly rural and of disperse nature. The introduction of railway routes led to the establishment of commercial and administrative centres along the routes which in turn had a great effect in determining the number, size and distribution of urban areas of today. Other colonial policies in initiating commercial and administrative centres together with the strategies of provision of infrastructure and agricultural development in certain areas, also led to the growth of other urban centres which were not along the railway network.

Urbanisation as a major element of Kenya's development is therefore comparatively recent. The number of urban centres (defined as population centres inhabited by 2,000 people or more) is relatively few and most of them are small in size compared to urban centres in many other parts of the world. However the growth of such towns during the last two decades has been very rapid and follows general urbanisation trends in other developing countries. This rapid growth is clearly shown by the rate of increase of urban population, for example, the annual rate of growth of urban population during the 1962, 1969 intercensal period for instance was 7.2% compared to 3.4 of the national population. During the 1948 population census there were 17 towns with a population of 2,000 people or more having a total population of 276,240 or 5.1% of the national total. In 1962 the number of towns doubled and the urban population numbered 670,950. The 1969 population census showed further rapid growth of urban population to a total of about 1,000,000 people distributed over 48 towns. Thus in 1969 10% of the total national population lived in such centres, however two-thirds of the total urban population was located in Nairobi.[1] Since then the urban population has continued to increase and according to the 1979 census Nairobi has a total population of 850,000 people. However the provision of housing has not kept pace with this increase.

As a result overcrowding and squatter settlement development has increased especially in the big urban centres. It is with these views in mind that the historical development of Nairobi - the study area - will be looked at.

2:3 NAIROBI: HISTORICAL BACKGROUND

The history of Nairobi dates back to 1896 when a transport depot was established there. However the actual growth of the town began at the arrival of the Kenya - Uganda Railway to Nairobi in 1899. It is then that the railway authorities decided that Nairobi would be their headquarters. As a result they became involved in more intensive development there than at any other point on the line. Nairobi's first boundary was defined as 1.5 square miles from the office of the subcommissioner in 1900. There was subsequent boundary changes in 1919: 9.8 square miles, 1948: 32.4 square miles and 1963: 266 square miles. (see Map I)

As the time went on the town continued to grow and already by 1905 government and railroad administration offices had been established in distinct areas of the centre of the town. By 1911 the settler agricultural activities began to flourish and there was a new wave of investment. Nairobi started growing in every direction, the settlers began to build comfortable residences on large plots in the Nairobi hilly areas to the west and northwest and in parklands to the north. Africans were living in the eastern sections of the town.(2)

Already by 1913 racial segregation was being exercised to ensure that the choicest land was preserved for the Europeans and the Africans could be controlled. Inspite of this the population continued to grow significantly (see Table 1:1).

Table 1:1 Nairobi Growth 1906 - 1979

Year	Europeans	Asian	Africans	Total
1906	559 (4.9%)	3,582 (31.1%)	7,371 (64.0%)	11,512 (100%)
1926	2,665 (8.9%)	9,199 (30.8%)	18,000 (60.3%)	29,864 (100%)
1936	5,600 (11.3%)	16,000 (32.3%)	28,000 (56.5%)	49,000 (100%)
1944	10,400 (9.6%)	34,300 (31.5%)	64,200 (59.0%)	108,900 (100%)
1948	10,830 (9.1%)	43,749 (36.8%)	64,397 (54.1%)	118,976 (100%)
1962	21,476 (8.0%)	86,454 (32.4%)	158,865 (59.5%)	266,794 (99.9%)
1969	19,185 (3.8%)	67,189 (13.2%)	422,912 (83.0%)	509,286 (100%)
1979				850,000

Source: Temple F. "Politics, Planning and Housing in Nairobi." Massachusetts Institute of Technology, Ph.D. Thesis. 1973 P.32 and Central Bureau of Statistics Population Census.

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These figures confirm the rapid increase of population in Nairobi and especially that of the African population who the colonial government was trying to stop coming to the town. For example, between 1906 and 1926 the African population doubled, and between 1926 and 1962 it increased by 8.9 times. In 1926 the African population was 6.8 times that of the Europeans and by 1962 the African population in Nairobi was 7.4 times that of the Europeans. This increased population had a lot of implications on the shortage of housing. Also the attitude held about Africans determined what was provided in terms of housing and other facilities.

In the first 20 years of the century almost all Africans lived in unregulated settlements. However these were gradually demolished and both landlords and tenants were obliged to live in a demarcated native location. This location was called Pumwani and was opened up in 1922 for Africans and Arabs to rent plots from the Municipal Council and to erect lodging houses out of traditional material called "pumwani" (a place of rest). Apart from Pumwani another old settlement standing today is Kibera, an unplanned semi-rural settlements for Nubian ex-soldiers which was founded in 1912. Another old settlement which was demolished in 1938 was Pangani. About the same time a new estate called Shauri Moyo was built for the Pangani people by the Municipal Council. This estate costed about K.Shs. 920,000 and was mainly financed by a loan from the government. The total number of the housing units was 170.[3] Other than the Municipal Council the railway administration was also involved in providing housing for their employees. By March 1939 the railway administration had provided 1,633 married quarters for Africans and it was building 600 additional units and hoped to complete a further 600 during 1939.(4)

Although the war time conditions brought a lot of problems two housing schemes were carried forward from 1938 planning phase. Ziwani and Kaloleni estates were built and the government had extension of their Starehe houses. The railway had already built 170 blocks including some 1,700 rooms in the new Makongeni Estate.

Towards the end of the 1940's more plans for African housing were done and these estates were to be along the axis of Jogoo Road called Bahati, Gorofani, and Mbotela. More areas were also serviced and made available for employers to erect housing for their employees. In the late 1950's efforts were concentrated on the new ofafa developments which were later named by their residents Maringo (posh), Jerusalem (the Heavenly City), and Jericho (not far from Jerusalem). These estates were completed as follows: In 1958 the City Council completed 136 flats at Ngara; in 1959 Ofafa Maringo which had 1,400 flats was completed and also Embakasi Village. In 1960 500 family flats were built in Jerusalem, and building of 2,386 flats at Jericho were beginning in 1963; 240 flats were built at Mariakani in Nairobi South.(5)

Although this was a significant increase it could not cope with the increasing population and it was clear that conventional housing schemes were no longer adequate to satisfy the needs of the Nairobi residents especially the majority of urban population. The only solution to this problem was the building of unauthorised shelters. This up to date is still an attempt by the low-income groups to provide housing for themselves. It is evident that in these pre-Independence years the colonial idea of housing provision was for individual branches of government and individual private enterprises to provide for their employees. Today this same procedure exists in the form of housing allowances and subsidies rather than actual construction of housing for those in the modern sector.

So far one can clearly see that the attempt was for the individual organisations to provide finance for the housing and not the individual who given their economic state could not afford building their own housing according to laid down standards. This same trend continued even after Independence seeing that the construction of more units was slower than the population increase, the shortage became even more acute and by the time of Independence the housing shortage was critical.

After Independence several policies and strategies have been made most of which have been put in the official documents and plans. The following section will look at the housing policies and programmes since Independence as stipulated in the National Development Plans and other documents.

Plate 1

A typical example of houses in Pumwani Area. One of the oldest settlements in Nairobi commenced in 1922.

Plate 2

Some of the Municipal Council's attempt to provide housing and services for the African population during colonial days - Ziwani Estate.

2:4:0 URBAN HOUSING POLICIES AND PROGRAMMES IN KENYA

2:4:1 HOUSING DEVELOPMENT AFTER INDEPENDENCE

Elaborate national planning began after Independence for all the government sectors. Various policies were made and these have mainly been reflected in almost all the post-Independence development plans and in various official documents and publications. This section will deal with some of these publications and especially the National Development Plans. As already stated by the time of Independence there was an already existing shortage of housing.

In response to this situation the government invited the United Nations' experts to make recommendations on housing policies within the framework of social and economic planning in 1965. Among others this report by Bloomberg and Abrahams recommended the establishment of a National Housing Authority with more power than the already existing Central Housing Board. They also recommended coordination and initiation of development by the local authorities.

Following the publication of the United Nations sponsored report on housing needs particularly those in urban areas, a sessional Paper No. 5 was published to highlight the major housing policy. It stated that the government's urban policy would be organising, in collaboration with the local authorities, a programme which seeks to develop housing projects which will provide essential housing and healthy environment to the urban dwellers at the lowest possible cost to the occupant. It also endorsed recommendations to the effect that a National Housing Authority be established to coordinate housing programmes particularly those relating to the local authorities.(6) In 1966 a Ministry of Housing was established. Also following this recommendation the National Housing Corporation was established in 1967. Housing Finance Company of Kenya and the Rent Restriction Department were formed.

Other documents that contain government policies are the Development Plans. Following is a brief description of the policy aims and programmes for housing as stipulated in the four development plans. These are the 1964-1970 Development Plan; 1970-1974 Development Plan; 1974-78 Development Plan and 1979-83 Development Plan.

2:5 DEVELOPMENT PLANS 1964 - 1983

2:5:1 1964 - 1970 DEVELOPMENT PLAN

This was the first development plan. This development plan had no priorities as far as housing was concerned. However "the plan reaffirmed the government housing policy by focusing attention on such issues as the problem of rural to urban migration and inability of the majority of the urban population to secure housing of reasonable quality and quantity.(7) Although the government was aware of the financial limitations of the low-income groups, it discouraged any type of subsidy. Inspite of the situation site and service schemes were seen as a practical approach to the problems of low-income groups in the urban areas.

Commenting on the performance of housing between 1964-1970 the 1970-1974 Development Plan stated that since Independence the role of the government in housing had been to encourage the private sector to play an increasing role in building more houses and in assisting local authorities through N.H.C. to enlarge public housing programmes. It was also stated that since Independence the public sector had produced or helped to produce 9,500 houses and sites on an average of 1,900 per year. It stated that the number of houses completed so far, were for incomes in the middle range "yet nearly 70% of the demand for urban housing is by the lowest income groups"[9]. Although the private sector increased their output since Independence it did not produce a large number of dwellings. To stimulate their activities the government established the Housing Finance Company of Kenya (HFCK) at the beginning of 1966. The objective of establishing HFCK was making loans available to people wishing to acquire their own homes in the main centres.

The 1964-70 development period witnessed a shortfall of 7,500 units per year. This shortfall was met by individual families who had squatted on public and private land built whatever poor shelter was within their means usually fashioned of mud, wattle, cardboard and tin. This shortfall was an indication of how critical the housing shortage problem was becoming since the population was at the sametime increasing. The fact that the government role had been encouraging the private sector to play an increasing role in building more houses meant that the concentration was more on profit making housing than for low-income groups since these involved a greater risk.

Another significant factor is that by 1963, 44% of the African households were estimated to be living in employed housing. However the Federation of Kenya Employers decided in 1970 to bring to an end the provision of workers housing.[(10)] This was a disadvantage to the lower-income groups since the employers housing was no longer accessible to them. By implication this would decrease the number of housing units since the employers had a choice to build or not build.

2:5:2 1970-1974 DEVELOPMENT PLAN

According to the 1970-74 Development Plan "the prime objective of government policy in housing is a move towards a situation where every family in Kenya will live in a decent home whether privately built or state-sponsored which provides at least the basic standards of health, privacy and security.[(11)] However the plan pointed out that due to the inadequate incomes for many families, decent housing along with the other elements of a minimally adequate standard of living will continue to be beyond the reach of a significant portion of the population.

The main objective was increasing housing stock and this would be through the following:

(a) giving loans to the Municipalities and other Local Authorities;

(b) direct construction where Local Authorities cannot build;

(c) pilot schemes in rural and urban areas;

(d) participation in the financing of private housing by business enterprises, and individuals;

(e) assistance to companies who undertake to employee housing;

(f) giving financial and technical aid to housing schemes in settlements;

(g) improving housing design with emphasis on the materials and research into housing market and the constraints of supply especially in finance and construction and building industry.[12]

Since according to estimates made in 1968 four-fifths of the urban effective demand was for dwellings costing K.Shs. 24,000 the plan fixed a maximum cost of K.Shs. 24,000 per unit for housing financed from the government development funds. Any dwellings costing more than this were to be financed by the HFCK and the private sector. The plan also stated that since the shortage of housing was so acute the available finance would largely be used to expand the total stock of houses rather than clear slums or purchase existing dwellings. It was made clear that about 33% of the total funds allocated to NHC could have to be spent on site and service schemes rather than conventional housing.[13]

It was estimated that about K.Shs. 1,060 million would be the total investment in housing by both the public and the private sectors. The government intended to spend K.Shs. 540 million on housing which would be over 13% of the government's total spending for development during the plan period. During this period the estimated 50,000 urban units needed were not built instead only about 25,000 units were completed.

2:5:3 1974-1978 DEVELOPMENT PLAN

The policy was to continue in more or less the same way as laid down in the previous plan. However high priority was placed on the rapid improvement of housing standards whereby the desire was to streamline housing design and construction with government determined standards. This was to be done by ensuring that each housing unit constructed in an urban setting would be expected to have a minimum of two habitable rooms plus a kitchen and toilet and shower. In addition the plan advocated action against further spread of squatter settlements, slum clearance, through the process of resettlement and improvement of substandard urban housing.

The government allocation of funds to housing was to total K.Shs. 689.2 million compared with K.Shs. 297.8 million in previous five years, an increase of 230%. It was envisaged that four times as many housing units were to be built in the plan period compared with the previous five years. Thus approximately 110,000 housing units would be required during the plan period in urban areas to house the increase in population, plus over 50,000 units to meet the existing shortfall. "The 110,000 units to cater for population increase would include 44,000 units (40%) costing K.Shs. 6,000, 17,000 (16%) costing K.Shs. 15,000, 19,000 (17%) costing K.Shs. 24,000, 20,000 (18%) costing K.Shs. 45,000 and 10,000 (9%) at K.Shs. 90,000 and above."(14) The majority of the units in the shortfall were to cost K.Shs. 24,000 or less and the estimated total cost of the total number of units was approximately K.Shs. 2,600 million.

From these figures the total urban housing requirements for 1974-1978 estimated at 110,000 housing units plus an accumulated 50,000 housing units would be 160,000. If this requirement was to be met in these five years then the production had to be at a level of 32,000 housing units per year. Of the K.Shs. 2,600 million needed only K.Shs. 1,620 million was planned for. The rest was to be met through loans from the Commercial Banks, Housing Cooperatives, World Bank and other external Institutions. Given the number of units needed and given the fact that the most needy people were in the low-income groups this money was far from being enough. Another factor that stands out in this plan is the standard given for housing. These were too high and unrealistic. The two roomed conventional housing is not within the reach of the majority of the urban population. They would not afford this type of housing.

2:5:4 1979 - 1983 DEVELOPMENT PLAN

This plan did not offer new policies or programmes which differ significantly from the previous one. This was mainly because the previous one had not been fulfilled. These are to be carried out in this plan and these are mainly those aspects regarding squatter upgrading and a promotion of site and service and the advancement of housing interests of the disadvantaged housing workers through cooperative housing.(15)

The plan estimates that of the existing 440,000 urban households only 30% have sufficient income to afford minimum conventional housing. The plan pleads the case of site and service schemes.

The urban housing programme includes a squatter upgrading programme, specifically geared towards improving the standards of dwelling units in slum areas. whereas additional squatter housing will be discouraged within the urban boundaries. The government's policy however is that no squatter settlements should be demolished without the provision of alternative accommodation.

Although most of the government's funds will be devoted to low-cost housing the need for medium and high cost housing is also recognised. Thus the NHC will continue to provide tenant-purchase housing subject to the availability of funds. However the private sector is generally expected to provide this category of housing unit but the government's role will be the stimulation of this sector through the provision of appropriate policies and incentives.

The total national housing requirements is estimated at some 290,000 housing units in urban areas over the plan period. This estimation includes a current shortfall of 140,000 units and a requirement of 30,000 per annum to cater for the expected increase in households between 1979-1983. It is estimated that the overall housing development period will require about K.Shs.1,044,094,0 of which the government will allocate K.Shs.2,480,000 to the Housing Research and Development Unit, K.Shs. 750,336,0 to the NHC; K.Shs. 31,480,000 to the HFCK; and K.Shs. 26,278,000 to other agencies like savings and loan.

From the above analysis it is clear that the provision of housing before Independence was mainly by the Municipal Council and employers like the government and the railway authorities. Other than these the lower-income groups provided themselves with housing which was of substandard nature. Other agencies involved before

Independence were private developers who concentrated their activities on middle and high income groups. After Independence almost the same trend continues but other finance institutions are formed. The finance institutions include the Ministry of Housing and Social Services, (now the Ministry of Urban Development and Housing) HFCK and NHC. These were and still are an attempt to deal with the increasing housing shortage.

Also after Independence the government has spelt out policies on housing. These have mainly been in the development plans. However these policies are not implemented effectively as a result of which the housing output is inconsistent with the housing need. The end result especially for the low-income groups is overcrowding and squatter settlement development. Although several stragegies have been attempted they fall short of the requirement and these substandard housing continue to increase. However inspite of these shortcomings the finance institutions have played a very signficant role in the provision of housing for Nairobi residents.

It is with this background in mind that in the next two chapters the activities of some selected finance agencies will be analysed. The finance institutions will be reviewed in terms of to what extent they have helped alleviate the problem of housing shortage and to what extent they have served the low-income groups.

Plate 3

Construction materials in squatter settlement areas - Mathare Valley.

Plate 4

A part of the completed dwelling and extension using temporary materials.

Plate 3

Construction materials in squatter settlement areas - Mathare Valley.

Plate 4

A part of the completed dwelling and extension using temporary materials.

Plate 5

Construction of squatter settlements using temporary materials. For example, cardboard for roofing and wooden poles and old discarded timber for the walls.

Plate 6

Construction on the site and service scheme using the required permanent materials.

(11) Republic of Kenya "Development Plan 1970-74" P.513

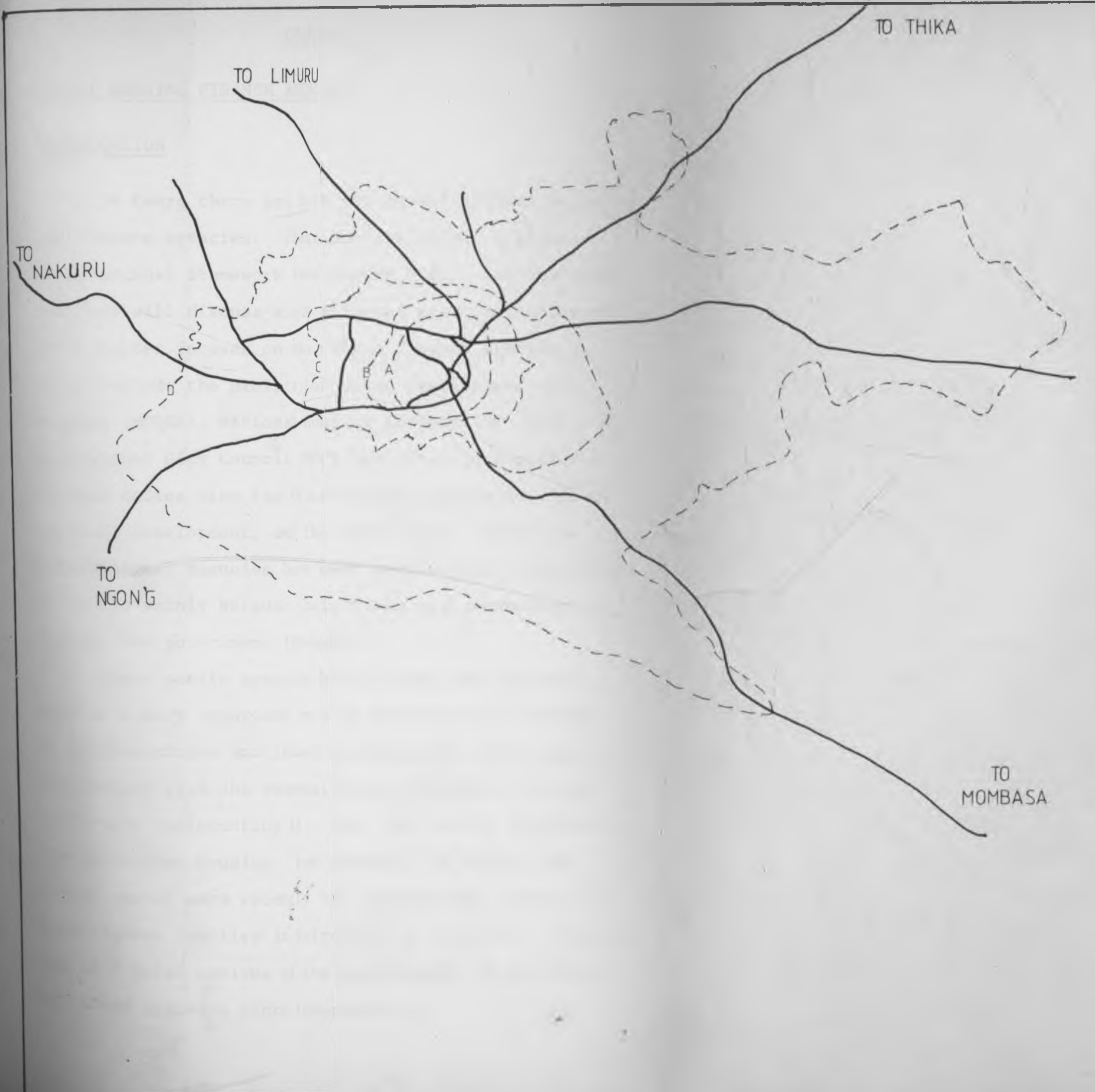
(12) Ibid, P.514

(13) Ibid, P.515

(14) Republic of Kenya. "Development Plan 1974-78" Government Printer, 1974. P.474

(15) Chana T.S. P.21

(16) Republic of Kenya. "Development Plan 1979-83" Part II. Government Printer 1979 P.125.



NAIROBI BOUNDARY CHANGES BETWEEN 1900 AND 1963.

LEGEND

---- BOUNDARY.

A - 1900

B - 1920

C - 1927

D - 1963

SOURCE W MORGAN PP 99

THESIS MAP No 1

SCALE 1 125,000

MALOMBE J.M
M.A. URBAN AND REGIONAL PLANNING
DEPARTMENT.
UNIVERSITY OF NAIROBI. 1980/81

CHAPTER 3

3:0 PUBLIC HOUSING FINANCE AGENCIES

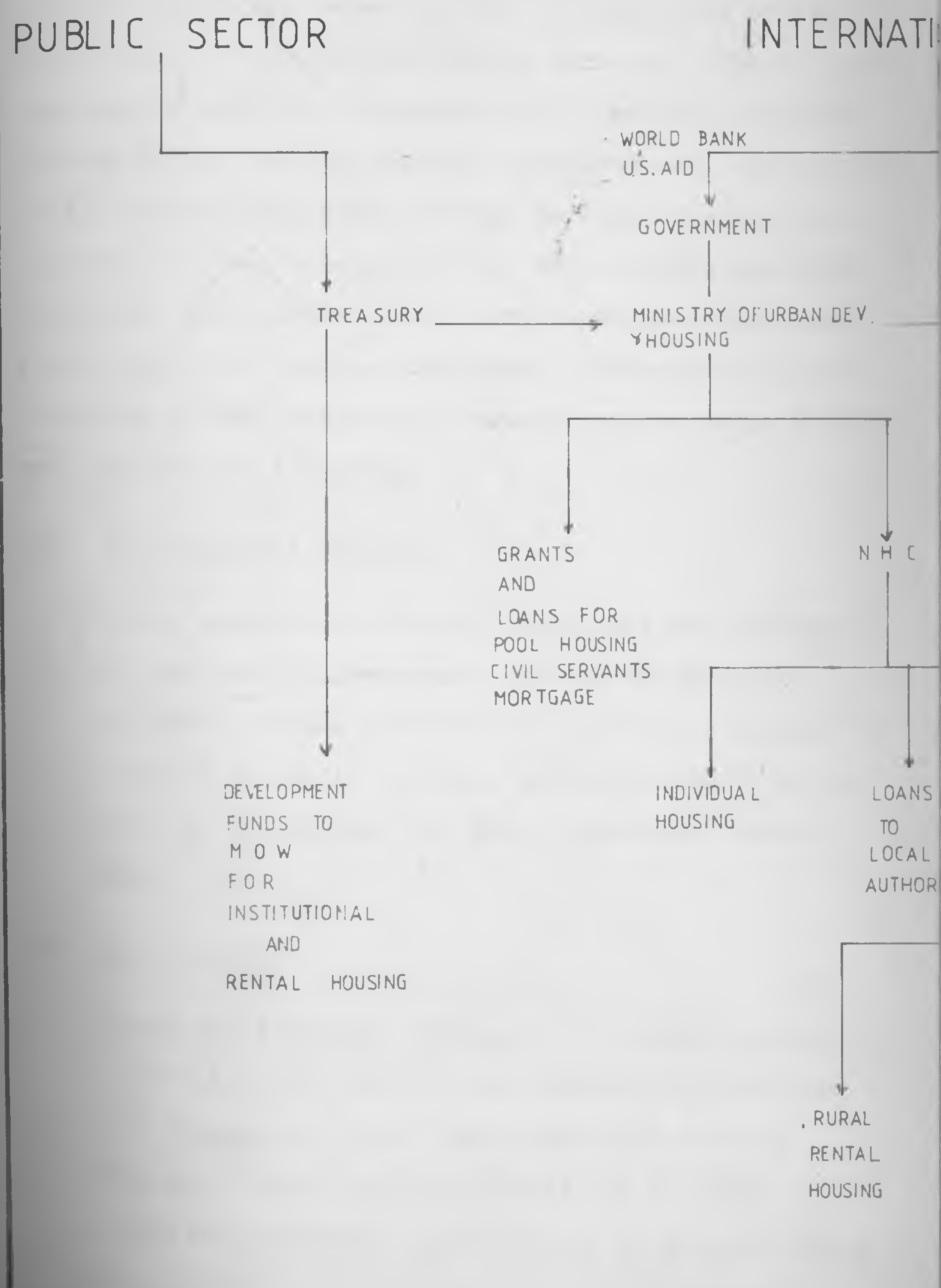
3:1 INTRODUCTION

In Kenya there are both public and private housing finance agencies. These operate within a given institutional framework (see figure 3:1). The next two Chapters will discuss eight selected agencies. However this chapter focuses on the public finance agencies. These include the Ministry of Urban Development and Housing (MUD&H), National Housing Corporation (NHC), the Nairobi City Council (NCC) and other International Finance Bodies like the United States Agency for International Development, and the World Bank. These two International agencies have been particularly classified as public mainly because their funds are channelled through the government (Treasury).

These public agencies have played and continue to play a very important role in provision of housing. In many countries and indeed in Kenya the public agencies are charged with the responsibility of making housing policy and implementing it. They are mainly involved in the low-income housing. For example, in Kenya, the public sector more recently has implemented schemes for lower-income families in Nairobi (e.g. Dandora). Following is a brief outline of the involvement of the abovementioned agencies since Independence.

figure 1

NATIONAL AND LOCAL FINANCIAL INSTITUT



3:2 MINISTRY OF URBAN DEVELOPMENT AND HOUSING

This Ministry whose main aim is provision of housing to all was formed in 1966. It was then called the Ministry of Housing and Social Services. The Ministry was charged with the responsibility of helping formulate housing policy, setting housing standards and implementing public housing programmes through National Housing Corporation. It was also to collect data on such variables as income, construction cost, rent levels and also translate these into housing programmes. Other direct participation in the provision of housing by the Kenya government include the following:

(a) Institutional Housing

These houses are financed, developed and managed by the Central Government through the Ministry of Works. These are institutional rental housing estates for civil servants working in institutions such as the police, the army, hospitals, schools. etc.

(b) Pool Housing

These are financed, developed and managed through two Ministries, that is the Ministry of Works and the Ministry of Urban Development and Housing. The pool rental housing estates are for civil servants not housed in institutional housing mentioned above and particularly in those remote areas where alternative types of accommodation are not available. Following is a table showing rent and categories of houses according to job groups.

Table 3:1 Government Housing Rents According to Job Groups

Job Group	The House Category	Rent K.Shs
M and Above		
Unfurnished	A	304
K and L	B	266
H and J	C	176
G	D	106
E and F	E	63
D and below		38

Source: Author's Survey.

The occupants of these houses do not get any housing allowance and pay this additional amount as rent. The figures on the number of the people in each category were not available. However, these houses are very few compared to the number of people employed by the government. The majority of the civil servants get housing allowance.

(c) Civil Servants Mortgage Schemes

The government provides bridging finance for the construction of Mortgage houses for the civil servants while loan facilities are provided by the

Housing Finance Company of Kenya (HFCK) and other Institutions. The main objective being to minimise the responsibility of providing pool housing for the civil servants while at the same time encouraging home ownership. Here the government does the construction and the HFCK reimburses the cost of construction at 90% while the allottee pays 10% of the cost of the house. The HFCK reimburses the government at 100%. HFCK gives the individual the 90% loan. This leaves no link between the government and the allottee. The allottee therefore has to meet the terms of the HFCK. These terms are highly regulative and restricted to middle and high income groups. An example of these staff mortgage schemes is the Old Racecourse which has three phases built in 1971 (72 houses); 1974 (138 houses); and 1976 (108 houses). This is a total of 313 houses and was constructed at a total cost of K.Shs. 3 million. Others to be constructed include 400 units at Nairobi West which are estimated to cost K.Shs. 80 million.

In addition to this the government rents houses for the civil servants and these are rented at economic rates. The government has rented 1,607 houses in Nairobi.

The other way the government deals with their employees is by giving housing allowance. Majority of the employees are in this category and since the number of houses is increasing at a very low rate there are not enough houses to rent. This increases the demand for the existing housing stock and hence the rents become very high and the low-income groups cannot afford to rent these houses because housing allowance is given according to job groups. The government being the biggest employer in the country it is unfortunate that the alternatives chosen leave the majority of the people unhoused. Following is a table showing the amount of housing allowance according to job groups.

Table 3:2 Housing Allowance for the Civil Servants in Kenya

Officers in Job Group	Maximum house allowance per Month K.Shs.
Q, R, and S	3,000
N and P	2,250
L and M	1,850
K	1,450
H and J	1,200
G	850
E and F	600
C and D	450
A and B in Nairobi Area	200

Source: Republic of Kenya, New Salaries and Salary scales for the Kenya Civil Service. Directorate of personal Management November 1980.

3:3 NATIONAL HOUSING CORPORATION

3:3:1 HISTORICAL BACKGROUND

The National Housing Corporation (NHC) which was instituted in 1967 was preceded by the Central Housing Board (1) which began to function in 1953. The functions of the Central Housing Board were to build houses directly and to make loans to other local authorities. This loan assisted local authorities with the preparation of plans and documents and with the supervision of work on the site The only type of loans made to local authorities were for the development of site and service schemes where the individuals could build their own houses. Other loans made to local authorities indirectly were for relending to employers to enable them to build housing for their employees.

After the recommendation of the United Nations Missions to Kenya on Housing in 1965 the Central Housing Board was transferred to the National Housing Corporation in 1967. (2) The main reason was that the NHC should be a separate corporation more independent of the Ministry of Housing. Another reason was to enable the corporation to give support to a wider field than just to local authorities and to undertake projects on its own.

3:3:2 AIMS AND OBJECTIVES OF NHC

The corporation is the government's main agency under the Ministry of Urban Development and Housing charged with the responsibility of implementation of government's housing policy through undertaking the following:

"(a) The corporation acts as an agency for transmitting loans from the Ministry of Urban Development and Housing to local authorities for the development of low cost housing in towns and to individuals in rural areas for the development of housing.

(b) It provides technical assistance in the form of designing, tendering and supervising construction for those local authorities inadequately staffed, with the necessary technical personnel.

(c) In a number of cases it develops and manages housing either in order to supplement the capacities of the local authorities concerned or meet the demand for houses in areas local authorities are not able to initiate and/or manage housing estates themselves.

(d) In conjunction with the Ministries of Urban Development and Housing; it encourages the development of housing research through the Housing Research and Development Unit at the University of Nairobi.

(e) Liaising with the Ministry of Urban Development and Housing the Housing Finance Company of Kenya, the Corporation undertakes to stimulate greater participation by the private sector by developing mortgage housing estates with mortgage loans being provided by the HFCK."(3)

3:3:3 NATIONAL HOUSING CORPORATION ACTIVITIES

This section deals with the activities of the corporation since Independence. Emphasis will be laid on the completed housing units and their cost. Current and future plans will also be briefly discussed.

In 1967 when the Central Housing Board was transformed into the NHC it handed over extensive programmes of large and small housing projects throughout the country For example, towards the end of 1967, forty-four high cost housing units at the Phase I of Woodley Mortgage Housing Scheme and fifteen medium cost units at the Moi Estate (Pilot) Scheme were completed and thirty seven more in Jamhuri Estate. Thus a total of ninety six housing units were completed. During 1968 the corporation was responsible directly or indirectly for construction of seventy seven medium and high cost houses costing K.Shs. 6,431,200 (K.Shs. 83,520 average cost per unit) and 861 low cost at a total cost of K.Shs. 13,307,360 (K.Shs. 15,440 average cost per unit). This is a total of 938 units costing K.Shs. 19,738,560. In this case for every one middle high cost house an average of 5.4 low cost houses could be built. For the K.Shs. 6,431,200 used to finance 77 houses for middle and high income groups 417 houses for low income groups could have been constructed.

Consequently in 1969 a total of 1,928 houses were completed throughout the country. Out of these 304 were in Nairobi as shown in Table 3:3. Of the total units 1,538 units were built by the local authorities with the long term financing provided by the NHC. The remaining units were built by the NHC and most of these were supposed to be in Nairobi. However, the long-term financing was provided by the NHC. It only organised the construction of the houses and provided bridging finance for the duration of construction, but none of its funds were laid up in the houses as far as long term financing was concerned. This by implication means that they were medium and high cost houses and mainly mortgage houses and thus benefiting the medium and high income groups.

Also within these projects one can see that most of the finances were used for housing units of the cost brackets of over K.Shs. 24,000 (see Table 3:4). For example, in 1969 76.8% of the funds were spent on houses costing above K.Shs. 24,000 which means that only 23.2% of the funds were spent on houses costing less than K.Shs. 24,000 (see Table 3:4).

Table 3:3 N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1969

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Woodley	Mortgage	82	291,400	3,500
Moi Estate	Mortgage Phase III	71	210,800	2,950
Kibera	Tenant Purchase IV	92	144,800	1,570
Sodi Road	Rental Flats	50	122,000	2,380
Otiende Estate	Tenant Purchase	9	12,699	1,400
TOTAL		304	781,699	

Source: N.H.C. Annual Report 1969. P.9

Table 3:4 THE COST BRACKETS OF HOUSING UNITS BUILT IN KENYA IN 1969

Cost Brackets of the Housing Unit	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 249	48	2.5	4,046	0.2
K£ 250 - 599	113	6.1	63,897	2.4
K£ 600 - 899	527	27.4	435,722	16.4
K£ 900 - 1,200	109	5.7	109,563	4.2
K£ 1,200 and over	1,126	58.3	2,034,079	76.8
TOTAL	1,928	100	2,647,306	100

Source: N.H.C. Annual Report 1969. P.10

In 1970 a total of 1,341 housing units were completed in Nairobi (see table No. 3:5) at a total cost of K.SHs. 32,341,000. Of these 363 houses costing K.Shs. 11,951,000 were a joing project of the National Housing Corporation and the Nairobi City Council. As can be seen from Table 3:5 the trend here was predominantly for tenant purchase houses and a few mortgage shcemes. During this period there was a slight shift of finance to housing units costing K.Shs. 18,000 - K.Shs. 24,000. These plus the housing units costing above K.Shs. 24,000 took 70.9% of the total finance for housing in 1970 (see Table 3:6)

			K£	Per Unit K£
Municipality - Nairobi				
Kariobangi	Owner Builders	16	10,000	625
Kariobangi	Tenant prefabricated concrete panels	67	32,000	480
Kariobangi	Tenant Purchase III	206	169,950	825
Kariobangi	Tenant Purchase IVA	42	41,000	975
Uhuru Estate	Tenant Purchase III	280	213,000	760
Uhuru Estate	Part of Tenant Purchase IV	106	116,600	1,100
Mathare Valley	Pilot Scheme	16	15,000	940
TOTAL BUILT BY N.C.C.		733	597,550	815
Joint NHC/NCC Outer Ring Road	Rental	363	429,000	1,180
Lower Hill Road	Maisonettes	91	322,000	3,540
Otiende	Tenant Purchase Extensions	14	9,000	710
Kibera	Tenant Purchase Self Help	105	120,000	1,150
Moi Estate	Business cum Residential	10	45,000	4,500
Kapiti	Mortgage	25	93,700	3,750
TOTAL N.H.C.		245	590,500	2,410
NAIROBI TOTAL			1,617,050	1,205

Source: N.H.C. Annual Report 1970. P.6

Table 3:6 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1970

Cost per Housing Unit including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 249	81	3.5	15,640	0.6
K£ 250 - 599	242	10.3	95,515	3.9
K£ 600 - 899	765	32.7	609,650	24.6
K£ 900 - 1,200	1,070	45.7	1,186,390	47.8
K£ 1,200 and over	182	7.8	573,495	23.1
TOTAL	2,375	100	2,480,690	100

Source: N.H.C. Annual Report 1970. P.15

Between 1971-74 the corporation constructed 5,518 houses in Nairobi (see Tables 3:7; 3:9; 3:11; 3:13). 62% of the total finance was used to construct housing units costing above K.Shs. 24,000, 19.5% of the finance was for the housing units in the cost brackets of K.Shs. 18,000 - K.Shs. 24,000. This is a total of 81.5% of the finances being spent on this category of houses. The total amount of finances spent during this period was K.Shs. 138,352,560. Thus 81.5% of the funds, i.e. K.Shs. 113,757,340 was spent on housing units in the cost brackets of over K.Shs. 24,000 (see Tables 3:8; 3:10; 3:12; 3:14).

During this period the average cost per unit was K.Shs. 42,820. For example, in 1971 the total average cost per unit for Nairobi was K.Shs. 24,100. Other than the Mathare Valley site and service and the Mathare Aided Self-Help Schemes the average cost per unit was above K.Shs. 20,000.

In 1972 the trend was the same and apart from three Schemes the Mathare Valley site and service and tenant purchase, Askari housing the average cost per unit ranged between K.Shs. 28,460 and K.Shs. 91,000. 51.5% of the funds were spent on this category of houses which were only 408 units. The remaining 1,838 units were constructed with 48.5% of the finances.

In 1973 the number of houses decreased significantly to 302 housing units. The average cost per unit ranged between K.Shs. 42,320 and K.Shs. 170,000. Ngei and

Kyuna Estates were mortgage schemes while Madaraka was rental. In 1974 a similar thing happened and the average cost per unit was even higher. The minimum cost was K.Shs. 45,820. (see Table 3:13).

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Uhuru	Tenant Purchase	158	190,000	1,203
Kariobangi	Tenant Purchase	320	385,000	1,203
Kariobangi	Tenant Purchase	250	275,000	1,100
Kariobangi	Tenant Purchase	60	84,000	1,400
Uhuru	Extensions Rental IV	292	346,000	1,185
Mathare Valley	Site and Service	500	50,000	100
Mathare Valley	Aided Self-Help	760	210,000	276
TOTAL BUILT BY N.C.C.		2,340	1,540,000	
Kibera	Aided Self-Help	210	246,000	1,171
TOTAL N.H.C. IN NAIROBI		210	246,000	1,171
NAIROBI TOTAL		2,550	1,786,000	700

Source: N.H.C. Annual Report 1971. P.9

Table 3.8 COST BRACKETS OF THE HOUSFS COMPLETED IN KENYA IN 1971

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 249	600	19	69,000	3
K£ 250 - 599	935	29	269,463	12
K£ 600 - 899	153	5	130,170	6
K£ 900 - 1,200	968	30	1,073,000	49
K£ 1,200 and over	546	17	672,500	30
TOTAL	3,202	100	2,214,133	100

Source: N.H.C. Annual Report 1971. P.6

Table 3:9 N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1972

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Madaraka	Rental I	352	744,832	2,116
Mathare Valley	Site and Service	741	118,560	160
Mathare Valley	Tenant Purchase	565	502,850	890
Askari Housing	Rental	180	199,980	1,111
Kariobangi Timber Housing	Tenant Purchase	267	37,000	1,423
Kibera	Mortgage I	217	480,438	2,214
NGEI	Mortgage	165	734,250	4,450
TOTAL		2,246		1,766

Source: N.H.C. Annual Report 1972. P.13

Table 3:10 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1972

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 249	2,065	44.9	273,860	6.2
K£ 250 - 599	285	6.2	120,550	2.7
K£ 600 - 899	616	13.4	542,350	12.4
K£ 900 - 1,200	344	7.5	356,180	8.1
K£ 1,200 and over	1,288	28.0	3,099,348	70.1
TOTAL	4,598	100	4,390,288	100

Source: N.H.C. Annual Report 1972. P.6

Table: 3:12 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1973

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 249	96	8.07	15,552	0.72
K£ 250 - 599	96	8.07	39,360	1.82
K£ 600 - 899	58	4.86	42,794	1.98
K£ 900 - 1,200	202	17.00	222,664	10.31
K£ 1,200 and over	738	62.00	1,840,232	85.17
TOTAL	1,190	100	2,160,602	100

Source: N.H.C. Annual Report 1973. P.12

Table 3:11   N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1973

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Madaraka	Rental I	248	524,768	2,116
Ngei	Mortgage Phase I	21	93,450	4,450
KYUNA	Mortgage Phase I	33	280,500	8,500
TOTAL		302	898,718	2,976

Source: N.H.C. Annual Report 1973. P.13

Table 3:13 N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1974

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Harambee	Rental I	247	580,000	2,348
Langata Ngei	Mortgage Phase II	170	807,500	4,750
Kibera	Rental	12	27,500	2,291
TOTAL		429		

Source: N.H.C. Annual Report 1974. P.9

Table 3:14 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1974

Cost of Housing Units including Services	UNITS BUILT Number	Percent	COST OF UNITS K£	Percent
K£ 0 - 599	-	-	-	-
K£ 600 - 899	260	18	195,900	8
K£ 900 - 1,199	483	33.30	468,300	19.10
K£ 1,200 - 1,499	198	13.80	260,800	10.60
K£ 1,500 and over	503	34.90	1,530,700	63.63
TOTAL	1,444	100	2,455,700	100

Source: N.H.C. Annual Report 1974. P.8

In 1975 the number of houses completed was lower than any other time. Only a total of 166 housing units were constructed which costed K.Shs. 12,560,000. The average cost per unit was K.Shs.92,000 and these ranged from K.Shs. 52,000 in Kibera to K.Shs. 190,000 in Kyuna Estate. Again in this year the Corporation did not construct any houses below K.Shs. 40,000 (see Table 3:15). The type of houses constructed during this time were only mortgage and tenant purchase schemes.

In 1976 there was a significant shift from mortgage and tenant purchase to site and service schemes. There was a total of 1,031 units in the site and service scheme completed in Dandora, Nairobi. Of these 1,028 (99.7%) costed between K.Shs. 7,800 and K.Shs.11,740. (see Table numbers 3:16; 3:17 and 3:18).

Between 1977 and 1978 a total of 877 units (see Table 3:18) were completed. There were only 213 site and service for which the average cost per unit was K.Shs. 21,800. The others included rental houses at Buru Buru (78) and rental flats (250) and Houses (366) at Huruma. The average cost per unit was K.Shs. 44,620. This was only in Nairobi. It is worth noting that of the total amount (K.Shs. 82,282,140) of funds available in the whole country, 73% was used to construct houses costing over K.Shs. 24,000. (see Table 3:20).

Table 3:15 N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1975

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Kyuna	Mortgage Phase III	18	171,000	9,500
Kibera	Tenant Purchase V	101	303,000	3,000
Kibera	Tenant Purchase V	46	151,800	3,000
Kibera	Tenant Purchase V	1	2,600	2,000
TOTAL		166	628,000	4,600

Source: N.H.C. Annual Report 1975. P.12

Table 3:16 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1975

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 599	500	22.20	250,000	9.26
K£ 600 - 899	131	5.82	112,300	4.16
K£ 900 - 1,199	730	32.41	741,200	27.42
K£ 1,200 and below	1,361	60.42	1,103,500	40.84
K£ 1,200 - 1,499	315	14.00	421,700	15.62
K£ 1,500 and over	576	25.58	1,175,700	43.54
TOTAL	2,252	100	2,700,400	100

Source: N.H.C. Annual Report 1975. P.21

[illegible]	Type of scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Dandora (financed by the World Bank and N.H.C.)	Site and service No. 1 Phase 1	4	1,600	390
		245	105,800	432
		1	500	464
		246	115,900	471
		197	100,000	516
		7	3,900	555
	Type A	1	600	581
TOTAL		701	328,800	469
	Type B	100	75,000	755
		78	62,000	806
		87	74,600	857
		3	2,800	917
		4	3,800	960
TOTAL		272	218,200	802
	Type C	3	3,000	1,009
		9	9,500	1,059
		2	2,200	1,119
		40	46,400	1,161
TOTAL		54	61,100	1,131
	Demonstration Units	1	500	471
	A	1	800	866
	B	1	1,100	1,059
	C	1	2,500	2,460
TOTAL		4	4,900	1,225
TOTAL NAIROBI		1,031	614,400	906

Source: N.H.C. Annual Report 1976. P.17

Table 3:18 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1976

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 599	878	49.24	404,200	26.96
K£ 600 - 899	278	15.59	224,000	14.95
K£ 900 - 1,199	62	3.48	68,800	4.59
K£ 1,200 and below	1,218	68.31	697,000	46.50
K£ 1,200 - 1,499	539	30.23	751,600	50.14
K£ 1,500 and over	26	1.46	50,400	3.36
TOTAL	1,783	100	1,494,000	100

Source: N.H.C. Annual Report 1976. P.21

Table 3:19 N.H.C. SCHEMES COMPLETED IN NAIROBI DURING 1977 AND 1978

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Huruma	Rental flats and houses	250		2,693
		366	1,426,342	2,179
Buru Buru	Rental	78	233,000	2,962
	Site and service	213	232,175	1,090
TOTAL NAIROBI		877	1,891,517	2,156

Source: N.H.C. Bi-Ennial Report 1977/78. P.19

Table 3:20 COST BRACKETS OF THE HOUSES COMPLETED IN KENYA IN 1977/78

Cost of Housing Units including Services	UNITS BUILT Number	UNITS BUILT Percent	COST OF UNITS K£	COST OF UNITS Percent
K£ 0 - 599	-	-	-	-
K£ 600 - 899	1,033	36.37	709,500	17.20
K£ 900 - 1,199	399	14.05	399,761	9.7
K£ 1,200 and below	1,432	50.42	1,109,261	26.90
K£ 1,200 - 1,499	352	12.40	502,026	12.90
K£ 1,500 and over	1,056	37.18	2,512,826	60.93
TOTAL	2,840	100	4,124,107	100

Source: N.H.C. Bi-Ennial Report 1977/78. P.23

In 1979 the total number of houses constructed in Nairobi were 3,056 units (see Table 3:21). This was a mixture of tenant purchase, rental flats and houses and site and service. These costed K.Shs. 103,535,580 and the total average cost was K.Shs. 55,760. This again shows that the majority of the population could not afford. During this year 68.8% of the total funds was spent on houses costing K.Shs. 30,000 and over. (See Table 3:22).

Looking at the houses under construction (see Table 3:23) at the end of December 1979 the same trend is very clear. By the end of 1979, 1,864 housing units (see Table 3:23)) were under construction. Of these 966 housing units were site and service schemes, while 600 were tenant purchase and 282 were mortgage schemes. Of the funds spent on housing 65% (K.Shs. 78,500,220) were for the mortgage schemes and 22.8%(K.Shs. 27,460,000) was used for tenant purchase. Thus 87.8% (K.Shs. 105,960,22 of the total funds (K.Shs. 120,516,980) was spent on tenant purchase and mortgage schemes. Only 12.2% (K.Shs. 14,616,780) was spent on site and service.

Place	Type of Scheme	No. of Units	Total Cost K£	Average Cost Per Unit K£
Municipality - Nairobi				
Samuel Ayang Estate	Site and service			
(formerly Kibera Mixed	Tenant purchase			
Development)	1 roomed	412	1,273,100	2,500
	2 roomed	1		3,250
	3 roomed	157		4,000
	Serviced plots	49		500
Ngei Estate Phase II (Extension)	Mortgage	76	699,200	9,200
Kariobangi Phase V	Rental Flats	320		(2,463
	Houses	400	1,874,261	(2,799
Dandora Phase II	Site and service			
Area 2	Type A	1,120	698,880	624
	Type B	519	468,138	902
	Type C	102	163,200	1,600
TOTAL		3,056	5,176,779	

Source: N.H.C. Annual Report 1979. P.15.

Table 3.22 COST BRACKETS OF THE HOUSES

Cost of Housing Units including Services	UNITS BUILT Number	Percent	COST OF UNITS K£	Percent
K£ 0 - 599	49	1.22	26,950	0.46
K£ 600 - 899	1,348	33.62	884,080	15.10
K£ 900 - 1,199	965	24.07	917,722	15.68
K£ 1,200 and below	2,362	58.92	1,828,752	31.24
K£ 1,200 - 1,499	-	-	-	-
K£ 1,500 and over	1,647	41.08	4,025,976	68.76
TOTAL	4,009	100	5,854,728	100

Source: N.H.C. Annual Reports 1979. P.18

Municipality - Nairobi				
Dandora Phase II Area 3	Site and service			
	Type A	618	385,532	624
	Type B	303	273,306	902
	Type C	45	72,000	1,600
TOTAL		966	730,838	
Kahawa West	Tenant Purchase			
	1 roomed	300	1,373,000	1,985
	2 roomed	272		2,498
	3 roomed	28		3,500
TOTAL		600		
Ngei Phase II (extension)	Mortgage	16	231,611	14,476
Onyonka Estate	Mortgage			
	Type A	166	3,693,400	14,000
	Type B	30		13,300
	Type C	36		11,460
TOTAL		282	3,925,011	
TOTAL NAIROBI		1,864	6,025,849	

Source: N.H.C. Annual Report 1979. P.20

Looking at the future plans for the Corporation the same trend may be expected. For example, in the housing programmes of 1978-1983 most of the housing units have an average cost per unit of over K.Shs. 24,000 (see Table 3:24). Most of the finances are spent on middle and high income groups.

In conclusion it is evident that although the NHC has done a lot since 1967 the concentration has been on middle and high cost units as shown above and summarised in the following three graphs (See Table 3:25 and Graphs numbers 1,2,3). From table number 3:25 the NHC have directly or indirectly completed 30,481 housing units since Independence at the cost of K.Shs. 698,954,340 million. The graphs show the cumulative investment by the NHC in housing since 1964 (Graph 1), the cumulative number of housing units completed by the NHC in Kenya since 1964 (Graph 2) and houses completed in Kenya directly or indirectly by NHC since 1964.

[illegible] Authority (Nairobi). Place and Type of Scheme	Source of Funds	No. of Units	Cost per Unit K£	Project Value K£
Huruma	MUDH	250	2,693	1,436,342
Site and service		336	2,179	
Kariobangi Rental	MUDH	720	2,799	1,874,261
Dandora Phase 1	IBRD	701	600	
Site and service	IDA	272	900	76,025
		56	1,100	
Ngei Phase II Extension	HFCK.	76	9,200	744,800
Samuel Ayang Estate	MUDH	412	2,500	1,273,100
Kibera Site & Service		1	3,250	
Tenant Purchase		57	4,000	
		49	550	1,246,150
Kahawa West	MUDH	300	1,895	
Tenant Purchase		272	2,498	1,373,000
		28	3,500	
Onyonka Estate	HFCK	166	14,000	
Mortgage		30	13,300	3,693,400
		86	11,460	
Dandora Phase II	IBRD	3,185	624	
Site and service		1,536	902	4,740,000
		244	1,600	

ALLOCATION OF FUNDS (K£) CASH PROJECTIONS

1978/79	1979/80	1980/81	1981/82	1982/83
192,978	36,903	-	-	-
265,318	365,954	-	-	-
-	-	-	-	-
133,972	198,445	-	-	-
450,000	219,997	-	-	-
26,960	75,000	1,267,000	-	-
439,810	1,400,000	1,415,555	369,340	-
556,816	1,800,000	1,800,000	300,000	283,184

Local Authority (Nairobi). Place and Type of Scheme	Source of Funds	No. of Units	Cost per Unit K£	Project Value K£
Ngei Phase II Extension Mortgage	HFCK	16	14,476	231,611
Julia Ojiambo Estate Mortgage	HFCK	23	14,286	
		125	13,043	3,325,330
		103	13,227	
Kariobangi Riverside	MUDH	1	3,950	
		27	3,485	399,000
		100	3,010	
Komorock Road Tenant Purchase	MUDH	1	2,923	
		366	2,708	1,884,000
		363	2,453	
Kariobangi South Settlement site and service	MUDH	515	700	360,000
Buru Buru Area	MUDH	112	5,497	
		64	3,171	
		26	3,626	960,000
		16	2,947	
Kibera Mortgage	HFCK	35	3,420	258,500
		55	2,525	

ALLOCATION OF FUNDS (K£) CASH PROJECTIONS

1978/79	1979/80	1980/81	1981/82	1982/83
11,000	120,000	100,511	-	-
	46,248		1,800,000	1,458,978
scheme not funded				
61,264	-	-	-	-
			85,000	173,500

Local Authority (Nairobi). Place and Type of Scheme	Source of Funds	No. of Units	Cost per Unit K£	Project Value K£	ALLOCATION OF FUNDS (K£) CASH PROJECTIONS 1978/79	1979/80	1980/81	1981/82	1982/83
Kibera Flats (Rental)	MUDH	1,000							
Kibera NHC Depot	NHC	1	174,650	174,650			130,000	44,650	
TOTAL NAIROBI		11,345		23,711,481	1,983,325	4,543,548	4,889,377	2,598,990	1,915,662

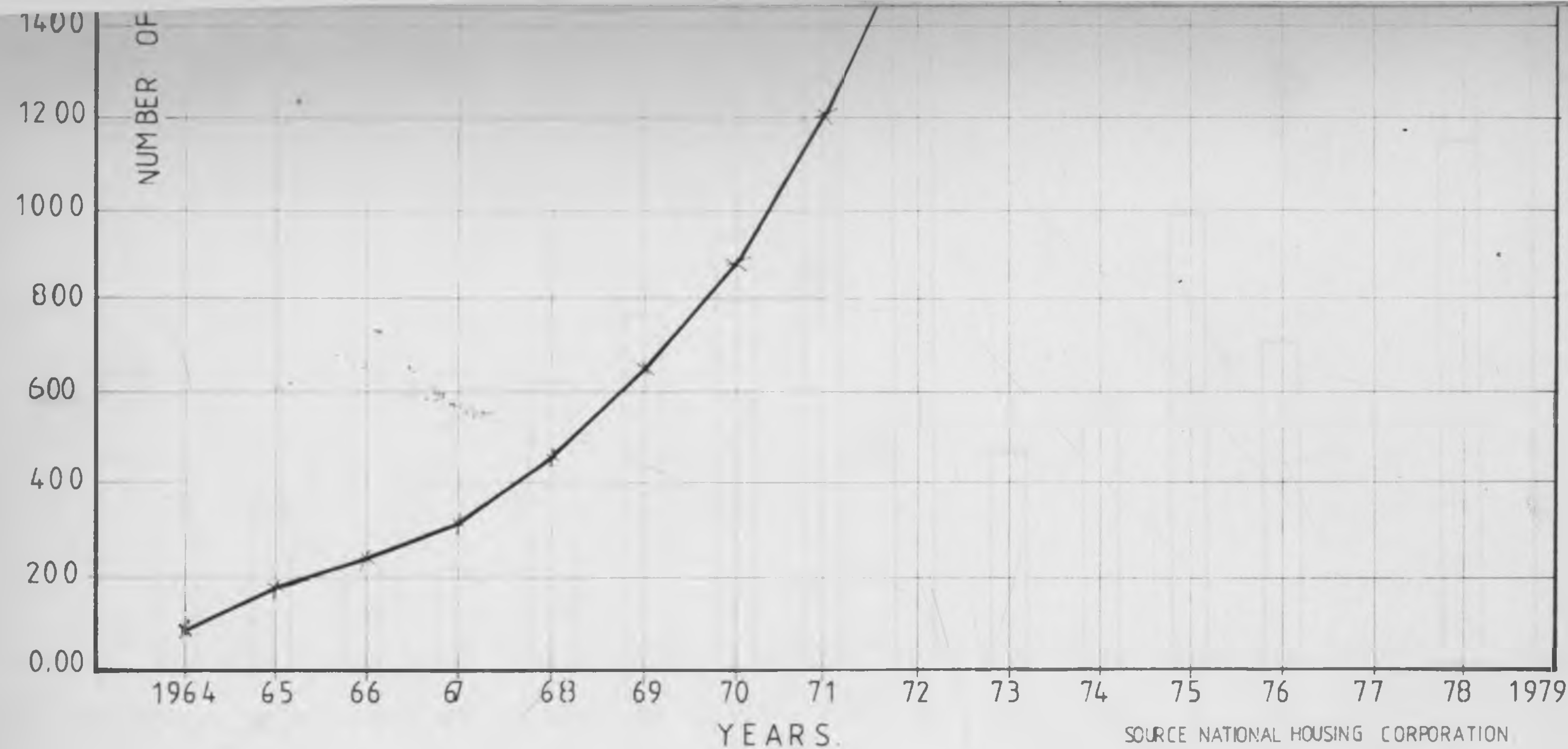
Source: N.H.C. Housing Programme 1980/81 - 1982/83.

Table 3:25

HOUSES COMPLETED IN KENYA DIRECTLY OR INDIRECTLY SINCE 1964 (NHC)

Year	No. of Units	Cost in K£	Average Cost Per Unit in K£
1964	936	149,313	156
1965	890	458,461	561
1966	611	213,199	349
1967	550	361,227	657
1968	1,588	1,225,873	772
1969	1,928	2,648,246	1,374
1970	2,340	2,480,690	1,060
1971	3,202	2,214,133	691
1972	4,598	4,390,288	954.8
1973	1,190	2,260,602	1,816
1974	1,441	2,474,900	1,717
1975	2,474	3,884,300	1,570
1976	1,783	1,499,000	841
1977/78	2,865	4,233,557	1,478
1979	4,085	6,553,928	1,604
TOTAL	30,481	34,947,717	1,147

Source: N.H.C. Annual Report 1979. P.10



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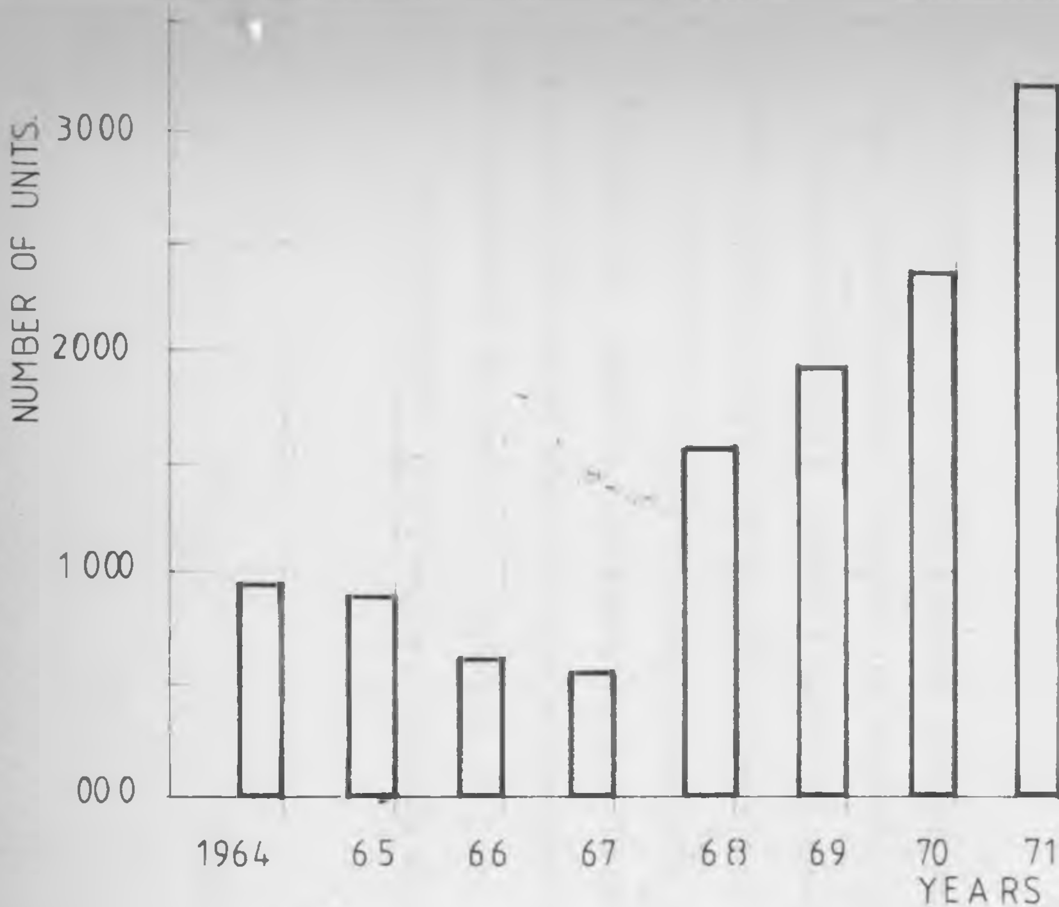
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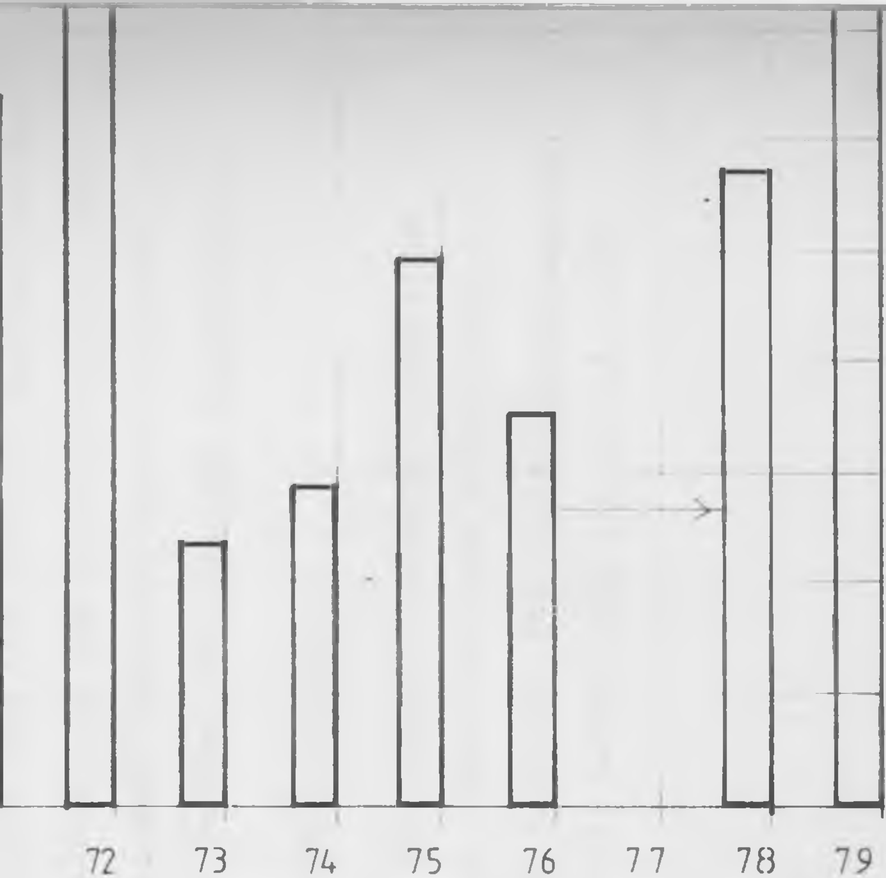

SOURCE NATIONAL HOUSING CORPORATION

3:4 NAIROBI CITY COUNCIL

3:4:1 INTRODUCTION

Nairobi City Council is the local authority administering the City of Nairobi. It has the responsibility of providing the residents with certain essential services which includes among others housing. To meet the housing needs of Nairobi residents the council has initiated various housing programmes and these include rental housing schemes, tenant purchase schemes, site and service schemes and staff housing for certain categories of council staff e,g. the Askari Housing Estate at Dagoretti Corner.

Certain measures have been taken to provide housing to the Nairobi residents but the Council finds it impossible to raise sufficient money with which to provide every deserving city dweller with adequate accommodation.

3:4:2 NAIROBI CITY COUNCIL ACTIVITIES

The Nairobi City Council has been in operation since colonial days. Over the years it has put up houses of different qualities for various income groups in the city. The City Council has a total of 13,703 housing units.[4]

Following is the proposed plan for the Nairobi City Council which will be implemented on the availability of funds in the future.

Table 3:26 Future Proposed Housing Plan

Scheme	Units	Estimated Cost K.Shs.
Kamorock Low Cost	733	36,000,000
Kariobangi Riverside	123	8,500,000
Kirk Road High Rise Flats	108	20,000,000
Madaraka Phase II	1,500	84,000.000
Jamhuri Phase II	1,000	81,000,000
Harambee Phase III	300	45,000,000
Pumwani Redevelopment	400	50,000,000
Buru Buru Area	300	48,000,000
TOTAL	4,464	372,500,000

Source: Nairobi City Council 1981.

The renewal and modernisation of the following existing housing estates is also in the proposed plan.

Table 3:27 Future Proposed Housing Redevelopment Plan

Scheme	Units	Estimated Cost in K.Shs.
Shauri Moyo	1,400	82,000,000
Kaloleni	1,000	75,000,000
Bahati	750	63,000,000
Mbotela	600	54,000,000
Ofafa Kunguni	500	48,000,000
TOTAL	4,250	322,000,000

Source: Nairobi City Council 1981.

From Table 3:26 the average cost of proposed housing per unit is K.Shs. 83,445 while for renewal and redevelopment is K.Shs. 75,765.

If the average unit of the proposed housing is a tenant purchase house which is to be paid over a period of 20 years, with 10% downpayment the income groups can be as follows:

Downpayment = K.Shs. 83,445 - 8,344.5 = 75,100.5

Interest Rate over 20 years = $\frac{P \times R \times T}{100}$

P = principal amount = K.Shs. 75,100.5

R = rate = 8%

T - time period = 20 years

Interest = $\frac{75,100.5 \times 8 \times 20}{100}$

- K.Shs. 120,160.8

The total amount to be repaid =

K.Shs. 75,100.5 + 120,160.8 = 195,261.3

Repayment per month = $\frac{\text{K.Shs. } 195,261.3}{20 \times 12}$ = 813

If the maximum amount supposed to be paid for housing is 25% of ones income then the income of the person should be:

$$\text{K.Shs. } \frac{813 \times 100}{25} = \text{K.Shs. } 3{,}252 \text{ per month}$$

The total monthly income should be K.Shs. 3,252 excluding 10% downpayment. This, as will be shown later by the income groups in Nairobi, excludes a majority of the people from getting these tenant purchase houses. Thus the proposed tenant purchase schemes by the Council will not help increase home ownership for the low-income groups.

It is worth noting that since Independence the Council has not been able to construct any cheap houses. This is because the Central Government issued a directive to the effect that the maximum size of a house should consist of two rooms, a kitchen, shower and bathroom. The Council then embarked on this exercise and constructed the Uhuru Estate which had a minimum rent fixed at K.Shs. 138. If the person is to pay 20% of their income for housing this type of housing will serve the people earning K.Shs. 690 per month. If the person pays 25% of the income they should be earning K.Shs. 552 per month. This is too much money to pay if the person is earning the above amount of money. People earning this amount will also not get this type of housing because of the high competition for such houses which are very few.

Seeing that this was not serving the low-income groups the City Council team set to study the situation and came up with the idea of site and service schemes. In these schemes the allottee would be encouraged to work on harambee basis to reduce the cost of construction of houses at least in the labour elements. The site and service schemes have mainly been the alternative for low-income housing. These projects have been financed with funds from the World Bank and the Kenya Government. These funds have been loaned to the City Council by the NHC to implement housing projects.

In conclusion the Nairobi City Council has mainly served the middle income groups since Independence.

3:5 INTERNATIONAL HOUSING FINANCE AGENCIES

3:5:1 INTRODUCTION

The international housing finance agencies involved in financing housing especially for the medium and low income groups include the United States Agency for International Development (USAID) through the housing guarantee programmes, the World Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank has provided funds for the first (Dandora Phase I) and second urban projects. The second urban projects consists of Dandora Phase II and projects in Kisumu and Mombasa. These projects are mainly site and service schemes and squatter upgrading.

Others include the Commonwealth Development Corporation (CDC), the Netherlands Government, and the European Development Fund (EDF). The finances from the

European Development Fund came about as a result of discussions between the Kenyan government and the European Economic Community.(5) This has mainly been dealing with projects in Nairobi and has identified three projects. These are the Mathare Valley site and service scheme, Kawangware improvement scheme and a Workshop Cluster in Dandora. This section will deal with the World Bank and USAID projects in detail.

3:5:2 THE WORLD BANK

The aims and objectives of the agency's involvement was to provide shelter for those people earning between K.Shs. 280 - K.Shs. 650 per month in the first project (Dandora Phase I) and in the second project (Dandora Phase II) for those people earning up to K.Shs. 1,000 per month. The idea here is the provision of a site with some services as roads, sewerage, water and drainage on which the resident builds his own home.

The World Bank is essentially the financier with the Government of Kenya as the borrower through the Ministry of Finance. These funds are then channelled to the Ministry of Urban Development and Housing (MUD&H). The Ministry then channels the money to the local authorities through the NHC. In this case the Nairobi City Council is the implementing local authority.

The World Bank has financed two projects and these are a scheme of 6,000 site and service units, together with the supporting physical and social infrastructure, in Dandora, eastern Nairobi. To date 3,700 sites have been completed and another 900 have not been occupied because water has not been installed. It was hoped that by the end of this year the 6,000 schemes would be completed. The first project was estimated to cost K.Shs. 210.80 million ($29.52 million by 1979) of which $7 million is provided through the IBRD loans and $7 million through the IDA credit, the remainder is provided mainly through the Government of Kenya.

The procedure has been that the City Council would provide the infrastructure and after this the selected applicants would be the ones to construct the building. The Council would provide a toilet, shower, the kitchen and one room and then give a material loan of K.Shs. 3,200 to build one other room. The allottee has eighteen months grace period and during these eighteen months the allottee is expected to finish complete the building constru. First they put up the foundation, then they get the loan for it and then the wall and the roof. The material loan is only given after the foundation or wall or roof is completed. This is what is called Type B site and service. Alternatively the Council would provide Type A scheme where they would only provide a toilet and a shower but the allottee is given a material loan of K.Shs. 6,400 to build two rooms.

Some of the terms of allocating the plot and the loan include the following (source author's survey).

(a) Income - which involves the total income of the family.

(b) Should have lived in Nairobi for two years

(c) Should be the head of the family

(d) Should not be owning any property in Nairobi (land or house)

(e) Initial deposit is K.Shs. 400.

(f) The interest rate is 8½% and the repayment period is 25 years for allottees earning between K.Shs. 280 - K.Shs. 400 and 20 years for those earning K.Shs. 400 - K.Shs. 650.

(g) The rate of repayment varies between K.Shs. 140 - K.Shs. 200 excluding water and electricity. They also have to pay a ground rent of K.Shs. 90 - K.Shs. 120 per year and an annual insurance of K.Shs. 30.

(h) The plot is to be repossessed if the allottee does not pay the loan for a period of six months.

One of the problems faced in this project is illegal selling of the plots to other people. This mainly occurs because the person is not cannot able to afford to repay the loan. There is also cheating in the application forms and so the plots go to the wrong people who would not live there but instead rent the plot. The allottee is supposed to live there and sublet some of the rooms but some people let out the whole plot. Another problem is that of recovery of the loan from the allottees because it involves too much work and some people are not willing to pay back the loan in time.

Other problems are mainly administrative, for example there are delays in construction and this increases the construction cost because these are increasing at a very high rate and the loan is not increased.

Although this scheme has increased housing stock in Nairobi it has not met the needs of the low-income groups because the structures have been too expensive and majority of the people cannot afford to construct their own structures.

3:5:3 UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

The Housing Guaranty Programme of the United States Agency for International Development (USAID) was developed as a part of the United States Foreign Assistance Programme in 1962 to respond to the enormous and rapidly growing world wide shortage of shelter. This programme is the principal instrument of the USAID for helping countries address their shelter problems.[6] The USAID programme in Kenya has the following principles[7]

(a) It seeks to institutionalise within Kenya housing agencies the aided self-help, minimum standard, full cost recovery approach to low cost housing through programmes demonstrating the economies and reinvestment benefits of this approach. Consistent with the Government of Kenya approach, the USAID's objective is to increasingly minimise public investment in individual shelter projects and maximise aided self-help and private sector involvement. In addition to serviced plots, other shelter approaches include squatter upgrading and expandable core housing. All these options will be considered in the USAID's demonstration programme in Kenya.

(b) Both the USAID and the Government of Kenya share the programme development goal of relating building standards to the affordability of housing by intended beneficiaries.

(c) Where slum upgrading is a project element it is essential for the local authority to ensure residents of their right to occupy their existing dwellings or to be provided with an alternative shelter option such as a plot in a site and service scheme.

(d) All elements of a project must be affordable by families of below median income.

(e) All the Housing Guaranty programme elements are funded by loans which must be fully recovered from charges to allottee and from revenue.

(f) The USAID will encourage greater participation by the private sector in the provision of finance and loan management services and mobilisation of household savings for low cost shelter schemes through the USAID pilot efforts involvement of private sector will only be promoted where adequate interests of the low income allottees are ensured and safeguarded.

The AID Guaranty Programme operates as follows. The Government of Kenya and the USAID decide on a programme and sign an implementation agreement. Then the project is advertised in the AID Gazette, the Federal Register and the interested lenders are supposed to contact the Government of Kenya. The best lender is picked and the AID notified. Then the Government of Kenya and the private lender sign a second agreement. After that the AID signs an agreement with the Government of Kenya where the Government agrees to pay them if it became necessary, for example, if there are difficulties in the repayment of the loan by local authority. The AID signs with the private lender and promises that if the Government of Kenya cannot pay the AID will pay the private lender. Thus the USAID does not lend money but they sign a guarantee for the American Banks to lend the money to the Government of Kenya.

After the money is borrowed it follows the following channels before it gets to the beneficiary.

Figure 3:2

USAID FUND FLOW CHART

USAID
↓ 30 years
GOVERNMENT OF KENYA (TREASURY)
↓
MINISTRY OF URBAN DEVELOPMENT AND HOUSING
↓
NATIONAL HOUSING CORPORATION
↓
LOCAL AUTHORITY
↓ 25 - 26 years
BENEFICIARY.

By legislation the beneficiaries of this are to be in the bottom half of the population by income. These were said to be people earning about K.Shs. 1,800 per month in Nairobi, Mombasa, and Kisumu. For other towns the income is supposed to be K.Shs. 1,200 per month. The income earned per month was found to be difficult to establish since most of the people in the bottom 50% work in the informal sector.

The USAID has so far been involved in two projects in Nairobi. The first one was Kimathi Estate and the second one was Umoja.

The objective of the first project was to encourage the Government of Kenya to implement the policy of emphasising various shelter solutions for lower income families. This project was to act as a "pilot demonstration" of a home ownership programme for the Nairobi City Council. The actual amount borrowed for this project was U.S. $1,993,073 by the Nairobi City Council. The investor was the Life and Casualty Insurance Company of Tennessee. The money was loaned to purchasers at a composite rate of 8½% for a maximum period of 20 years. The Council required at least 5% downpayment from the tenant purchasers (note that the document called for a 10% downpayment 5% and financed the remaining 5% out of its own resources). The amount of the loans to the tenant purchasers was determined as follows:

"Type	Sale Price	Less 5% down-payment	Loan Amount
3 bedroomed	K.Shs. 46,000	2,300	43,700
2 bedroomed	K.Shs. 41,000	2,075	39,425

The monthly instalments under the Tenant Purchase Agreement were

Type	10 year term	15 year term	20 year term
3 bedroomed	K.Shs. 555	K.Shs. 439	K.Shs. 385
2 bedroomed		K.Shs. 396	K.Shs. 348

(8)

In addition to this the administration fee to the City Council was as follows: 10 year term - K.Shs. 49 per month; 15 year term - K.Shs. 39 per month and 20 year term - K.Shs. 34 per month. Other costs to the allottee were estimated at K.Shs. 355 for the legal fee for preparation and recording of documents, stamp duties and fire and casualty insurance (per month).

The terms for getting these loans were as follows:

(a) The applicants had to satisfy the Council that their annual income is sufficient to meet all the consequential expenses.

(b) Each application from an employed person had to be accompanied by a letter from the employer stating position held, length of service, annual income and that he is prepared to deduct monthly repayments from the salary and transmit them to the City Council.

(c) Self-employed people will be required to furnish accounts, income tax returns or such other evidence as may be considered necessary.

(d) This is a tenant purchase scheme and is intended solely for owner occupation. (9)

The second project in Nairobi was the Umoja scheme which was to be in a number of phases stretching over a period of years. The scheme was to be on a tenant purchase basis. The loan document provided for a U.S. $10 million loan to Nairobi City Council for 25 years at a composite interest rate of 10% to the ultimate tenant purchasers. The interest rate to the City Council was at 9.2% per year. A total of 2,924 housing units were to be built. The target income group were people earning K.Shs. 1,146; K.Shs. 1,346; and K.Shs. 1,394 per month. (10)

Some of the problems facing this project are the fact that although the objective of these projects is owner occupation more than half are rented. Another dilemma is that of reducing cost to a point where the units become affordable to the target income group.

In conclusion the USAID's projects have served the middle income groups. The low income groups are excluded. For example, the people earning below K.Shs. 1,100 have not been catered for and this is where the bulk of the population is. The terms given exclude these low-income groups. Although these projects have significantly increased the housing stock in Nairobi they have mainly concentrated on middle income groups especially in the present projects in Nairobi.

This chapter has looked at five public housing finance agencies. These have been looked at in terms of their objectives and activities since Independence to assess their contribution to housing in general and specifically to low-income housing. Although they have contributed significantly to the provision of housing for Nairobi residents they have mainly concentrated on middle and high income groups. Although some like the Dandora project were meant for the low-income groups the accompanying terms and regulations tend to be biased towards low-income groups. For example, the amount of loan given is not enough to build two permanent rooms to the required standards. This means that unless one has got other sources of income they will not be able to afford to construct these rooms. Hence if they get the room they end up losing it because they can neither develop it nor manage to pay for the loan. The other housing units constructed by the public agencies are either too few or too expensive and thus not accessible to a majority of the needy urban population.

Plate 7

An example of site and services provided for low-income housing with self-help construction on the site - Dandora. (Financed by The World Bank.)

Plate 8

A house provided for high-income groups (mortgage scheme). Ngei Estate Phase I.

Plate 9

An example of civil servants' mortgage scheme - Old Racecourse.

Plate 10

The Government's attempt in providing housing for the low-income groups through the site and services scheme strategy - Dandora Scheme.

Plate 11

An example of a completed housing unit financed by USAID - Umoja Estate.

Plate 12

An example of a partly financed and constructed housing unit by USAID to be extended by the purchaser.

FOOTNOTES

(1) Bloomberg L., and Abrahams C. "United Nations Mission to Kenya on Housing." Prepared for the Kenyan Government, Nairobi, 1965. P.34.

(2) Chana T.S. "Evaluation of the site and services programmes in Kenya". University of Nairobi, HRDU. July 1979. P.19

(3) Ogutu F. "The Role of National Housing Corporation in the Provision of Housing in Kenya." University of Nairobi. M.A. (Planning). Thesis. 1978. P.26.

(4) Republic of Kenya. Ministry of Urban Development and Housing. "Report of the Seminar on the Role of the Private Sector in Housing Development in Kenya." Nairobi. 1 - 3 September, 1980. P.124.

(5) USAID Office of Housing. "Kenya Shelter Sector Study and AID's experience." Nairobi 1979 P.65.

(6) USAID "Small towns shelter and community project". April 1980. P.1

(7) Ibid.

(8) USAID. Office of Housing. P.81.

(9) Ibid. P.82

(10) Ibid. P.99

CHAPTER 4

4:0 PRIVATE HOUSING FINANCE AGENCIES

4:1 INTRODUCTION

After having discussed the public housing finance agencies in the last chapter, this chapter discusses the private housing finance agencies. Private housing finance agencies have played a very significant part in the provision of housing for the Nairobi residents since Independence. They have mainly concentrated on housing for medium and high income groups. However some (e.g. housing cooperatives) have been involved in low income housing. Private housing finance agencies are of different types. A brief description of these agencies will be given after which three selected finance agencies will be analysed in detail. These include the Housing Finance Company of Kenya, (HFCK), East African Building Society (EABS), and Housing Cooperatives.

Private housing finance lending institutions some of which have existed for a long time consist of (1)

(a) Building societies and similar organisations. These include the Housing Finance Company of Kenya (HFCK), East African Building Society (EABS), Saving and Loan Limited (S&L), and the recently developed Pioneer Building Society (PBS). The Housing Finance Company of Kenya Limited is jointly owned by the Kenya Government and the Commonwealth Development Corporation (CDC). The Savings and Loan (Kenya) Limited is owned by the Kenya Commercial Bank (KCB) as a separate Company. The East African Building Society is privately owned by a group of private developers.

(b) Commercial Banks

These lend money for purchase and construction of houses when liquidity is high Lending policies vary from one bank to another but the terms are normally less favourable than those obtainable from building societies, with the repayment period rarely exceeding ten years. Kenya Commercial Bank has recently launched a special loan scheme for farmers housing.

Another bank which has recently registered a finance company in order to offer mortgage loans to its clients who are all cooperative societies mainly in the agricultural sector is the Cooperative Bank of Kenya.

(c) Insurance Companies

These have contributed to housing development financing by financing large scale estate development for the middle and high income market and also by giving loans to their clients for house purchase.

(d) Private Institutions and Individuals

These are private institutions and individuals who manage to raise money either through their own savings or relatives and friends; for purchasing or building a house. The sources usually lower the differences between the total cost and what the household can raise in the market by way of mortgage.

(e) Cooperative Savings Associations and Groups.

These play an important role in providing finance for housing.
The above mentioned finance institutions are briefly some of the private finance agencies. Following is a detailed analysis of three of these agencies.

4:2 HOUSING FINANCE COMPANY OF KENYA

Housing Finance Company of Kenya (HFCK) was founded in 1965 through an agreement between the Government of Kenya and the Commonwealth Development Corporation (CDC) (formally the Colonial Development Corporation) of Great Britain. From the policy point of view its formation was an attempt by the Government of Kenya to encourage private sector involvement in housing which had been greatly shaken by the political disturbances just before and after Independence. To date it gets its funds from the shareholders who are the Commonwealth Development Corporation and the Government of Kenya in the form of equity and loans, and also from public deposits.

The main objectives of the HFCK are as follows:

(a) Make loans available for home ownership;

(b) Indirectly encourage lending in Kenya;

(c) Create a housing savings scheme.

The ultimate objective is to improve shelter conditions of the people and continuously assist in increasing the country's housing stock. In principle the tasks, therefore, are to provide finance, assistance in project preparation, guidance as well as management expertise needed to develop housing units with the overall effort directed towards individual homeownership.

The HFCK loans are given in three ways these are:

(1) Loan for purchasing existing houses.

(2) Loans for persons with registered plots.

(3) Loans for people wishing to buy medium and high cost houses built by the National Housing Corporation. The HFCK in this case provides long term financing of such houses.

The overall programme of the HFCK is designed to serve the stable middle and upper income groups, as well as serving individuals who take the initiative to build or purchase their own houses. The HFCK also works in conjunction with the public agencies and private developers to provide mortgage financing for whole estates (e.g. Buru

Buru). In addition to this the HFCK has also provided mortgage facilities to the civil servants for the purchase of houses built by the Ministry of Works.

The loan conditions of the HFCK are as follows:(2)

- payment of deposit at the time of making an application for a loan;
- approved plans and specifications together with building contract to be deposited with the company.
- construction must be supervised by an architect;
- stage payment on certification by the architect as well as the company valuer;
- inspection by the company of excavations and steel works;
- insurance of the building being constructed;
- concessionary rates of interest to owner occupiers;
- payment of legal fees, stamp duty and registration fees by the borrower;
- prior approval by the HFCK of any leasing or renting of the premises;
- prior approval by the HFCK of a second charge;
- insurance of the property and the life of the borrowers;

- redemption of the loan on the expiring of three months written notice;

- the valuation of the property by the company valuer whose report is confidential to the HFCK;

- irrevocable authority to the borrower's employer to deduct the instalments from salary;

- preference to Kenya citizens;

- must be employed or self-employed. If he is employed the HFCK requires a letter from the employer giving details about his/her employment. e.g. salary, house allowances, commission. The maximum loan to an employed person is normally three times his annual income which is the basic salary plus house allowance or if married the joint basic incomes plus allowance;

- if self-employed the HFCK requires audited accounts of his/her business for the past two years or income tax assessment for the same period. In this case 2½ times the annual income is required;

- normally lend 90% of the HFCK valuation or purchase price whichever is lower subject to a maximum loan of K.Shs. 400,000 provided the allottee meets the income requirement;

- initial deposit is normally 10% for new buildings or 20% for existing ones;

- the rate of interest is 10½% per annum to owner occupier and 12% per annum where the property is to be let; and

- the repayment period is 10, 15 or 20 years depending on the age of the customer and the condition of the property being offered as security loan.

The HFCK has financed the purchase and construction of over 10,000 housing units since Independence. The main problems faced by the company is mobilisation of funds which has been made more difficult by the stiff competition from other finance institutions offering higher rates of interest. Otherwise the company has experienced continued success and progress since it was formed in 1965.

Although the minimum loan is K.Shs. 22,500 no houses costing this amount have been given loans. The minimum loan given has been for housing units costing K.Shs. 90,000. However this is not a common practice because most of the housing units cost much more than this amount. From the condition for getting loans and the fact that no housing loans have been below K.Shs. 90,000 one clearly sees that the low-income groups (earning between K.Shs. 800 and K.Shs. 1,200 per month) do not qualify. This is also clearly shown in the objectives because the company intends to serve stable middle and high income groups. However unlike the other private housing finance agencies 50% of the HFCK funds are from the government. This is of great importance because these are public funds and should be used to benefit the majority of the needy population which are not included due to the terms and conditions and the large amounts of money involved. However, the HFCK is presently considering ways and means to finance low-income housing.

3 THE EAST AFRICAN BUILDING SOCIETY (EABS)

The EABS is one of the few institutions registered under the Building Society Act. It was started by a private group of people (mainly Indians) with a small office in Biashara Street in Nairobi in 1959. It used to collect small deposits and it grew from that.

Although experiencing difficulties at its earlier stages it has grown significantly since 1965 and remains one of the major financial institutions involved in housing that is wholly privately owned and operated.

The society to date gets its funds by accepting deposits from individuals, companies, institutions, local government and central government. These deposits are advanced to the prospective borrowers on housing only. There are three kinds of deposits. These are the savings account which gets 6% per annum interest; investment share account which gets 8% per annum; and fixed deposit account which has 9½% per annum interest. The fixed account is unique in that one cannot withdraw the money but on a fixed term of not less than one year or more.

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The use of society's funds is governed by the fact that advance to borrowers is only on residential areas. They are not allowed to develop estates.

The terms of giving loans are:

(a) housing units should have a title deed which will be deposited with the society;

(b) the amount of loan varies from 50% - 70% of the value of the house depending on the area where the building is situated. (For example, for Eastlands a borrower gets 50% and in Muthaiga the borrower gets 70%. This is mainly because of the security of the area. If the borrower is not able to pay back the loan it would be easier to sell the property in Muthaiga than in Eastlands.)

(c) consequently the downpayment is 30% and 50% according to the area;

(d) interest rate is 12% for owner occupier and 13% for the rented houses.

(e) the repayment period is between 5, 10, 15 years depending on the age. (For example, if the borrower is sixty years the time period allowed for borrowing is five years and if 25 years it is twenty years. This is paid in monthly instalments);

(f) must have an income that will meet the above demands.

(g) property is valued by the society's valuer and loan given on that basis; and

(h) payment of the deposit (30%, 40% or 50%) at the time of making the application.

The income groups served are those earning between K.Shs. 8,000 and K.Shs. 12,000 per month. The people in this category comprise 90% of the borrowers. Since its formation in 1959 the society has financed 2,652 housing units. It has raised K.Shs. 400 million and has advanced K.Shs. 300 million as loans.

The main problem facing the society is the lack of finances in spite of the increasing number of applicants. This is because the money has to be raised from deposits. The society is trying to overcome the above problem by advertisement so that more people can start a savings account with the society.

Since the society is privately owned the terms are more strict and they exclude a majority of the people even the middle income groups. However recently the society is looking for ways of serving these low income groups.

4:4 HOUSING COOPERATIVES

Housing cooperatives have been defined as "any form of organisation and action in which groups of people small or large, undertake cooperatively to obtain housing to be owned by those who occupy it."(3) The cooperative devotes itself to providing loans for its members; of necessity they also perform some functions of builders, purchase of land, design of building and financing. The new dwellings are then turned over by the housing cooperative to their member at agreed rents.

The cooperative movement in Kenya is widespread but the development of housing cooperatives has not kept pace with the other types of cooperatives. Of the existing housing cooperatives most of them are in Nairobi. Housing Cooperatives in Kenya fall into two groups, one group consists of approximately 25 newer societies organised by groups to build low-cost houses. The other group consists of religiously based cooperatives registered by Muslim (Ismalia) communities in Nairobi and Mombasa. Some of these were formed as early as 1948. After acquiring housing for their members these Muslim societies exist purely for maintenance of the structures on behalf of the members, who now have individual ownership after mortgage loans have been paid off. This group generally has been very successful. The organisation was as follows:

An average of 100 members in each society bought shares of K.Shs. 500 in the society and on this basis they were able to raise additional capital from religious foundations, such as the Ismalia Jubilee Trust Fund and from Insurance Companies at market rates. The members of the community usually carried out the construction of houses as well as flats. After the repayment the house or the flat became the property of the members and the members were free to sell it, rent it, or stay in it.

These societies have not faced any serious problems because of their strong common bond and as a result they have not asked for or needed supporting servioes from the Government.

The second large group of more recently registered housing cooperatives has not been very successful. In 1978 25 societies in this group had been registered but only five had been able to acquire land and actually build houses for their members. The five are the Gikomba Building Cooperative Society; the Huruma Housing Society; and the Thika Housing and Development Society, which is outside Nairobi.[(4)] The remaining were facing a variety of problems related to acquiring land, long term financing and lack of technical expertise.

One of these societies bought an undeveloped plot and is looking for long-term finance. Four have bought commercial buildings in order to raise capital for housing construction and three others are dormant. One other society was formed for the purpose of improving substandard houses built in Kangemi on freehold plots and another society was formed by middle and high income individuals provided they put down a sizeable amount of K.Shs. 25,000 of share capital. The shareholders would eventually be allocated houses in a new estate near Nairobi. This society has not been able to obtain any long-term finance. The remaining societies have just registered themselves but they are not as yet operational.

Below is a brief description of two of the active housing cooperative societies. These are the Huruma Housing Cooperative Society and Gikomba Building Cooperative Society.

(a) Huruma Housing Cooperative Society

This society was formed by very poor people who had been evicted from their previous residence in a squatter area in Nairobi. The society was supported by the National Christian Council of Kenya (NCCK) which provided interest free loans of K.Shs. 750 per member plus technical support. They built cheaper structures costing K.Shs. 10,000 consisting of two rooms, on serviced sites, of which one room could be sublet. The NCCK experienced problems with the City Council Authorities who had their own fixed building standards which seemed too high and expensive.

(b) Gikomba Building Cooperative Society

This society was started in 1963 by a group of ten people, who had been living as illegal squatters in the Gikomba area of Nairobi. The purpose of the society was and still is the provision of low cost housing for members now living at Kariobangi after eviction from Gikomba. The society was registered in 1965 and membership had increased to 50 members by July 1965. The cooperative approached the former Central Housing Board for a loan but had to wait for a long time to get a loan from the National Housing Corporation, which finally approved the loan which was channelled through the City Council to obtain the Council's guaranty.

The loan of K.Shs. 200,000 was finally given on the additional security of three houses already built by the society's own resources. In 1973 the same society obtained yet another loan of K.Shs. 208,000 from the NHC on the same term (ten years at 7%) in order to complete 43 units in total. Rooms in individually owned houses are rented to non-members and only a few of the members actually live in their houses.

This has been a very profitable business for the members but continuous squabbles within the committee have resulted in accounts and records being in a total disorder.

Thus although the recently formed housing cooperatives societies have not been successful they have a great potential for providing housing for the low-income groups. They have faced very significant problems which unless dealt with will put the success of the cooperative societies at stake. There are mainly three problems and these are as follows:

"(1) Lack of access to long-term finance: Apart from the Gikomba Housing Society none of the other societies of recent registration have had access to regular public funds for construction;

(2) Lack of serviced land and leasehold terms: This becomes a problem where the society has not been allocated enough land and or any land at all in suitable places. If they have to purchase privately owned land as some of them have, they would have problems raising finance for construction of houses. Serviced land on a leasehold basis is the ideal arrangement for low-income housing. Site and service schemes would therefore be suitable for housing cooperative societies; and

(3) Lack of technical, managerial and administrative expertise: The most serious problem for the existing housing cooperatives has been the lack of supporting services to make up for their shortcomings. These include the design of limits or projects, the problem of identifying and securing land for the projects, the ability to keep proper accounts and enforce regulations set by the society. Frustrations and internal strife has resulted in the image of cooperatives being destroyed to a point whereby the local authorities, financial institutions and the public at large have become apprehensive about getting involved with such societies."(5)

Another problem is that although mentioned in the Development Plan housing cooperative societies have never been seen as making a major contribution to the overall urban development and housing policies in Kenya. As a result specific and massive programmes to use this channel for generating and mobilising housing resources have not been launched on any scale as compared to that of the agricultural sector.

Inspite of being a major source of finance it can clearly be seen that these housing cooperatives societies have not received attention. Although the move towards getting the cooperative bank involved is significant more needs to be done to stimulate housing finance sector especially for the low-income families. When properly managed they could provide housing units to a number of people who otherwise would not be able to get any housing.

Plate 13

Nairobi City Council's high rise flats - Kariobangi South.

Plate 14

HFCK's efforts in providing housing for the middle-income groups - Buru Buru Estate.

Plate 15

An example of a recent HFCK Development - Buru Buru Estate.

Plate 16

An example of one of the oldest mortgage houses financed by HFCK.

FOOTNOTES

(1) Republic of Kenya. Ministry of Urban Development and Housing. "2nd World Bank/Government of Kenya Urban Project. Kenya low-cost housing by-law study." Final Report Vol. 2. Discussion Papers by Saad Yahya and Associates. Kitololo and Partners. Halcon Fox and Associates 1980. P.63.

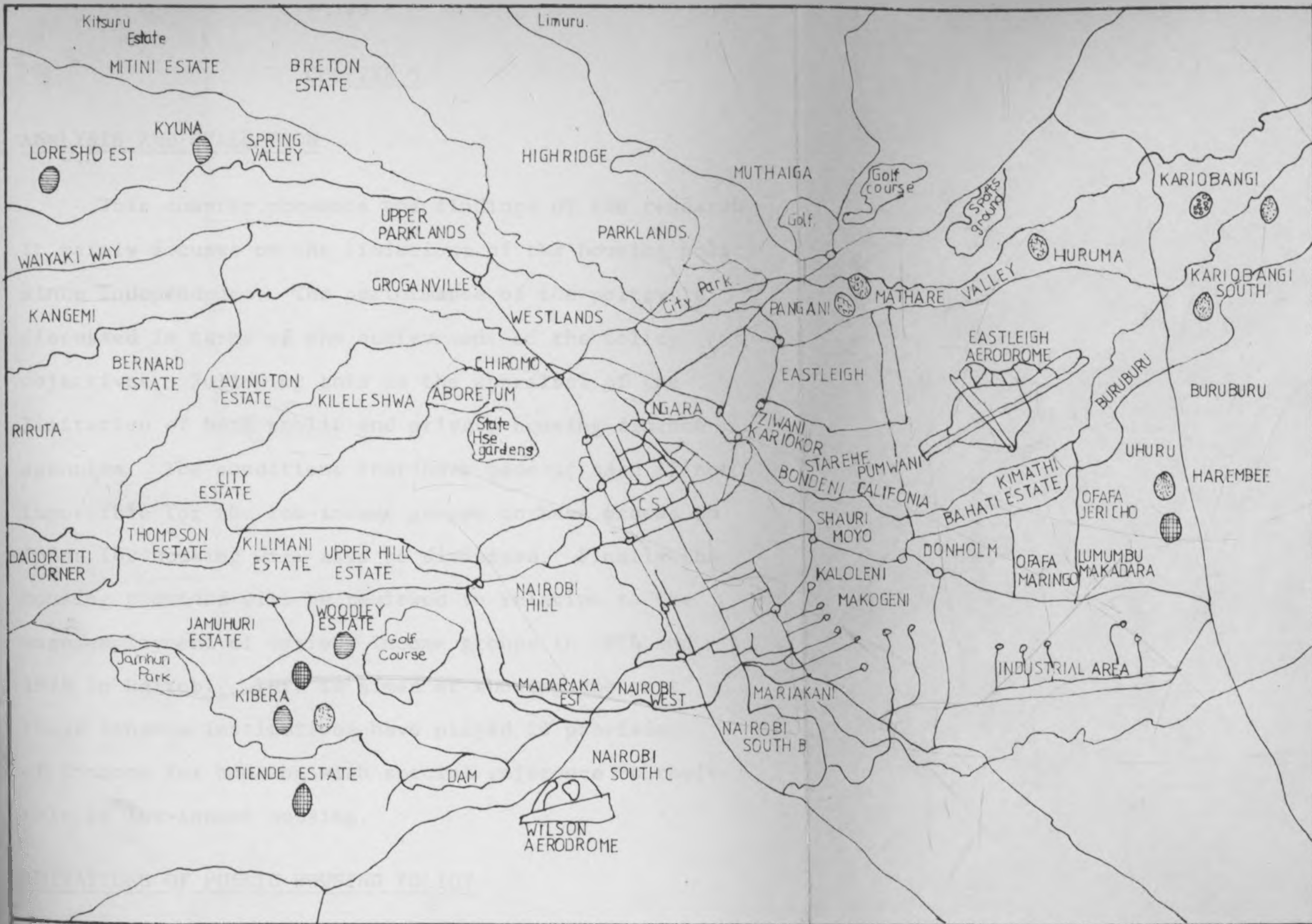
(2) Ibid, P. 73

(3) International Cooperative Alliance. "Cooperative Housing" Report on the Proceedings of the first ICA Regional Seminar Nairobi. 2 - 9 December, 1979. P.3.

(4) Muller M. W. "Housing Cooperative Societies in Kenya". University of Nairobi. HRDU May 1978. P.20.

(5) Ibid.

GEOGRAPHICAL DISTRIBUTION OF HOUSING PROJECTS IN THE CITY OF NAIROBI.



HOUSING FINANCE AGENCIES PROJECTS IN NAIROBI.

LEGEND

- MORTGAGE SCHEMES.
- RENTAL SCHEMES.
- SITE AND SERVICES SCHEMES
- TENANT PURCHASE
- CORE - HOUSING.
- AIDED AND SELF HELP HOUSING

THESIS MAP Nº 2.

SCALE 1 : 20 000

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CHAPTER 5

5:0 ANALYSIS AND EVALUATION

This chapter presents the findings of the research. It mainly focuses on the limiations of the housing policy since Independence. The performance of the policy is discussed in terms of the achievement of the policy objectives. Following this is the appraisal of the limitation of both public and private housing finance agencies. The conditions that have made it hard if not impossible for the low-income groups to have access to funds for housing will also be discussed. Finally the housing provided will be reviewed in relation to the wage employment of various income groups in 1974 and 1979 in Nairobi. This is aimed at showing the part these finance institutions have played in provision of finance for housing with special reference to their role in low-income housing.

5:1 LIMITATIONS OF PUBLIC HOUSING POLICY

Policy guidelines stipulated in the different development plans have had different types of achievements and shortcomings. The housing policy statement have significantly guided housing development in Kenya and indeed in Nairobi. Since Independence it has provided a housing development framework that did not exist before Independence. However there has been a lot of limitations that have affected housing development in

Nairobi. The limitations are as follows:

(a) Unrealistic and vague policies

Although the objectives set in the policy have guided development of housing most of them have been unrealistic as a result of which they have not been implemented. Most of the policies have been vague as a result of which it has been difficult to measure the level of achievement because it is not clear. For example, inspite of the recognised need of housing between 1964-70, the development plan never set any priorities as far as housing was concerned but left it mainly to the private sector to develop housing. Although it was recognised that there was a very acute shortage of low-income housing nothing was laid down in the policy to deal with this problem at that time. Most of the people were not housed and the people solved their problem by providing themselves with their own housing, which was not according to the given standards. In the latter years site and service schemes policy was adopted. The site and service strategy was seen as a strategy for solving the low-income housing. Again the policy does not explain fully how much a structure would cost and how the low-income groups will raise this money. Although it stated that they will do it through self-help the details of how this will be organised and become effective are not given. The K.Shs. 6,400 loan is not enough to build these two rooms that are required. A study on the cost of the materials should have been done to make a realistic policy which will afford to build these structures. A long with this goes the fact that most of the people in the target income group (K.Shs. 300 - K.Shs. 1,200) have not necessarily been served by these schemes. It is argued that these structures have proved to be very expensive and the allottees have ended up selling them to those who could afford to buy them. Hence the policy is not specific enough and most of the details are left out.. This is a very serious problem because most of the policies will tend to remain unimplemented as has been the case.

(b) Disparity between planning and Implementation

Hand in hand with the problem of unrealistic and vague policies goes a significant disparity between the actual housing output in relation to the housing need. For example, by 1970 there was a shortfall of 7,500 housing units per year. Between 1970-74 the output was 25,000 units as compared to the planned output of 50,000 housing units (the estimated urban housing need being 10,000 units per year over the five years). This output was not only lower than planned but it was not within the reach of the urban poor.

Between 1974-78 the output was even worse because the actual output was 9,000 units (out of which 3,000 were service plots) as compared to the estimated housing need of 110,000 units plus over 50,000 units to meet the shortfall during 1970-74. This is a total of 160,000 units. Due to the disparity between the actual output and the housing need the housing shortage continues to be more and more acute. This can clearly be seen in the estimated housing need between 1979-83 development period. The total national housing requirement is estimated at some 290,000 housing units in the urban areas plus the current shortfall of 140,000 units which makes a total of 430,000 units required by 1983. It is evident that the shortfall has significantly increased for example in 1974 the shortfall was 50,000 housing units as compared to the 140,000 housing units in 1979 which has increased about three times.

(c) Unrealistic housing standards

The third limitation of the policy is that it has set unrealistic high standards that a majority of the urban low-income groups cannot afford. The minimum standard of housing set in 1974 (two roomed house with toilet shower and a kitchen) is too expensive. This is to be built with permanent materials and as proved by the increased substandard housing. Most of the people could not afford to meet the minimum standard. These standards have even discouraged some agencies from providing finance for cheaper housing. An example of this is the Nairobi City Council which had constructed many cheap structures before Independence (e.g. Jericho, Jerusalem, etc.) but the Council has not constructed any cheap structures since Independence because the standards are too high. To solve the problem of the low-income group the City Council has instead resulted in implementing the site and service schemes, which leave most of the responsibility to the allottee. Although the site and service schemes have helped increase the housing stock for Nairobi they have not served a majority of the target income group.

(d) Lack of specified policy on the finances for the low-income housing

The finances allocated to low-income housing are in most cases not specified. The plan mainly states the housing need but does not show its commitment to low-income housing by devoting finances to meet this need. This is evident in the implementation of housing schemes. For example, inspite of stating that most of the NHC finances will be devoted to low-income housing, the Corporation spends more than 60% of its finances for medium and high income housing. Thus low-income housing is not given first priority although the majority of the population belongs to this income group. It can only be given first priority by setting aside funds for implementation of low-income housing and making sure this is done. This has not been the case as a result of which public funds have gone to more preferable housing projects.

In conclusion there are four basic limitations and these are unrealistic and vague policies, disparity between planning policy and implementation, unrealistic housing standard and lack of specified policy on the use of finances for low-income housing. This has affected provision of housing as manifested by the acute housing shortage in Nairobi and especially among the low-income groups. These policies have also affected the involvement of other agencies in providing finance for low-income housing. If the role of finance institutions was specific and their involvement stipulated they would be more involved in low income housing than they are now.

5:2 LIMITATIONS OF THE HOUSING FINANCE AGENCIES

This section focuses mainly on the housing finance agencies in relation to low-income (K.Shs. 300 - K.Shs. 1,200) households, who on account of their limited income

Agency	Type of Scheme	Amount of Loan %	Interest Rates %	Down-Payment	Repayment Period
H.F.C.K.	Mortgage	75 - 90%	10½ - 12%	10%	10, 15 or 20 years
E.A.B.S.	Mortgage	50 - 70%	12 - 13%	30 - 5%	5, 10, 15 or 20 years
N.H.C. *	Mortgage				
N.H.C.	Tenant purchase	90%	8%	10%	20 - 40 years
N.C.C.	Tenant purchase	90%	8½%	10%	20 - 40 years
World Bank Financial Projects	Site and service		8½%		20 - 25 years
USAID Financial Projects	Mortgage	50 - 70%	8½%	10%	20 - 25 years

* After construction handed over to H.F.C.K. so the terms are the same as those of H.F.C.K.

NOTE Besides the above the borrower can only get 2½ their yearly income. The agencies require stable income. The borrower should be able to pay 25% of their monthly income. The income then pays a very major part (in determining who is to be given the loan.)

and assets are currently ineligible for existing housing finance based on conventional loan terms. (See a summary of the terms of all the finance agencies Table 5:1). The terms analysed below mainly apply to the tenant purchase and the mortgage schemes. The rental schemes are mainly influenced by the cost of the building because this determines the amount one can be able to ask for rent. The availability of housing also influences the amount of rent. In the Nairobi case the rents are usually very high mainly because of the housing shortage.

The terms and conditions of access to housing finance have made it very hard for the lower income groups to get access to housing finance. In many ways these terms have been biased towards the low-income groups. Following is a brief discussion of some of these limitations of these agencies.

A major constraint of these agencies vis-a-vis lower income borrowers is the restrictive nature of their criteria and terms for granting loans. In addition these policies are applied in a conservative manner since these institutions must safeguard the capital entrusted to them. Although this might effectively protect institutions and their depositors from risk and loss, it also prevents lending institutions from modifying their criteria to fit the paying capacity of lower-income households.

These agencies require that one or more of the following conditions be met, a specified minimum level of income, assurance of economic stability and reliability as indicated by steady employment or regular savings and/or the provision of adequate collateral. The idea of dependable employment excludes even moderate income households who otherwise meet the income requirements. This is true where one is self-employed and their accounts have not been audited. Where the accounts are not available the applicant is required to show regular savings and/or the provision of adequate collateral where collateral is to be provided the borrower is required to provide satisfactory collateral for the loan.

These stiff eligibility criteria employed by the finance institutions are in keeping with the needs and priorities of these institutions. Most of these agencies are not at all in the business of serving the poor, nor are they free to incur the additional risks and administrative costs of serving numerous small loans for low-income groups.

Another limitation is that of the restrictive loan terms. The terms on which loans for housing are offered by private and many government schemes generally include the following:

(a) The specification of a minimum or maximum size of a mortgage or home improvement or construction loan. For the low-income groups the minimum size of loan may be higher than the maximum size the borrower wishes to take. For example, the minimum loan for HFCK is K.Shs. 24,000. It means that this should be 2½ times of the borrower's annual income. The borrower should then be earning about K.Shs. 800. This might not be necessarily what the borrower needs or can afford to repay back. This also means that the HFCK has got nothing to do with people earning less than K.Shs. 800. In spite of this being in principle the practice is different and the minimum loan given so far by HFCK is K.Shs. 90,000 which is more than three times the stipulated minimum.- The main reason why institutions set minimum size of loans is given the rate of return they require, they find it unprofitable to administer smaller loans especially over any extended period of time. This is in keeping with their objective of making profit. The second reason is that the minimum price of housing loan is partially determined by the minimum price of housing in the particular market context. The combined price of land and a completed dwelling, is very high relative to the financial capacity of low-income households that they are effectively placed out of the market. This has been the trend all along as a result of which most of the dwellings are not within reach for most people.

(b) One of the terms for a loan is a downpayment set at a particular percentage of the price of the dwelling. The downpayment ranges from 10% (e.g.

H.F.C.K. and some housing cooperatives) to 50% (e.g.EABS). The percentage is in relation to the cost of the building either at construction or market rate. There exists a bias towards low-income areas especially for EABS where the percentage is higher in low income areas. For example, in Eastlands the downpayment is 50% which is Muthaiga it goes as low as 20%. The downpayment is also influenced by the fact that the valuation of the property is done by the agencies valuer and the borrower is given loan on the basis of this valuation. For example, if a building is being sold at K.Shs. 400,000 and the finance institution values the building at K.Shs. 350,000 the borrower only gets 90% of K.Shs. 350,000 (i.e. K.Shs. 315,000). The borrower has to pay 10% (K.Shs. 35,000) downpayment and then meet the K.Shs. 50,000 difference. This means that the borrower will have to have K.Shs. 85,000 (downpayment plus the remaining balance for the housing unit). This eliminates not only the low-income groups who cannot for example be able to raise K.Shs. 35,000 required plus K.Shs. 50,000 difference. In Nairobi the downpayment required is generally beyond the paying capacity of low-income applicants who may otherwise qualify for a loan. Even when the downpayment on a mortgage is set as low as 10% (e.g. HFCK), it may still be substantially beyond the capacity of most low-income groups.

(c) The third condition is the maturity of the loan. The maturity of the loan is usually calculated on the basis of the total cost of loan management and collection and the risks of default at various lengths of amortisation. For a given rate of interest, the net profit to be made on a housing loan rises with the length of maturity sufficiently to offset the relatively higher risk of long-term loan. These aspects make the cost of the building to increase and makes it harder for the low-income groups to afford. Most of the maturities are between 10 - 15 years which makes the repayment very high.

(d) The fourth condition is the rate of interest and the manner in which it is recovered i.e. either simple or compound and whether annual, quarterly and monthly. This has mainly been annually and is between 8% - 13% per annum in both public and private agencies. The prevailing interest rate usually includes a component to cover the direct cost of administering the loan and a portion of overhead costs involved. These interest rates are usually very high and are even sometimes more than the loan itself. This then makes the amount required very high and puts a burden on the monthly repayment. Again the most disadvantaged are the low-income groups who cannot afford the repayments under such terms.

(e) One of the other terms for a loan is individual amortisation payments. This includes the question of whether the payments are each to be of the same amount, or are to start small and then gradually increase or to raise it and then decrease. The size and regular schedules of amortisation payment are burdensome to the low income groups who cannot afford the specified amounts needed. Only when very small loans at low rates ofinterest are envisage in the size of the individual payment accessible to low income groups. The terms of repayment usually not only require that the payment be in time, but that each instalment be of the same amounts and paid in full. Again not many can afford to do this.

These aspects, among others, make it hard if not impossible for low-income groups to be given any attention especially by the established private and some public agencies. The government and other public agencies who should serve this low-income group end up serving mostly high income groups. Although the policy states that government will concentrate on these groups, the practice is different and the ultimate outcome is people providing themselves with whatever housing they can afford.

Another source of finance for housing which is not fully discussed are the housing cooperative societies. The only ones successful in Kenya have been the religious ones which have mainly served the middle and lower middle income groups. The others due to a lot of problems have not been able to do a lot and most of them are just registered but have not done anything. The main problems have generally been administrative, technical and managerial. Properly organised the housing cooperatives have a great potential in provision of housing finance for low-income groups.

The limitations of the housing finance agencies could be summarised as follows:

(1) High eligibility criteria - this requires an "adequate" income at specified minimum which is usually higher than that of the low-income groups. Other requirements are regular savings at a specified minimum rate, regular employment and place of residence and collateral in the form of conventional marketable assets.

(2) Restrictive loan terms - these terms require a minimum loan size that is large and the loans are usually for completed dwellings. This might not necessarily be the needs for lower-income groups who may require small loans for gradual purchase and improvement of the dwellings. The loan terms

require high downpayments and ratios of downpayments to total house price. The terms also require a total cost of housing finance that frequently amount to a burden equivalent to 20% - 25% of the income. This percentage is usually too high for the low income.

These terms have led into some constraints and consequences. Following is a summary of these constraints and their consequences for low-income groups.

Constraints	Consequences
Minimum income eligibility criteria.	Excludes those in most need, transfers benefits to upper and middle income groups.
High levels of rent or monthly payments	Excludes those in most need because they cannot afford.
Requirement of a regular saving pattern and account	Those lacking ability to make initial deposits are excluded although they comprise the majority of the population in Nairobi.
Requirement of relatively stable income	Irregular earners are excluded because they cannot meet the requirements (See Table 5:1)

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Constraints	Consequences
Requirement of regular monthly payments	since inflexible they have no provisions for emergencies.

Other constraints and consequences which affect mainly the housing cooperatives include isolated efforts by the housing cooperatives which has led to failure of many housing cooperatives and has made these cooperatives have a little impact on housing condition. Also the self-help contributions are not always supported by outside fund sources due to competing priorities in favour of higher income housing. This leads to insufficient use of local resources which are not able to meet the housing need for the low-income groups. Finally it is evident that investors in housing prefer more profitable alternatives which leads to shortages of housing investment capital. This is shown by concentration of housing finance agencies in middle and high income groups. For example, about 70% of the NHC funds are committed to high and medium income housing. This shows their priority areas inspite of the policy stating otherwise. Others like HFCK, EABS, Saving, and Loan do not as yet provide housing for low-income groups.

In conclusion these housing finance mechanisms have clearly not enhanced the savings potential of lower-income groups. The centrally administered and standardised system inhibit the development of self-governing local organisations and thus not only fail to capitalise on the renewable resources of self-help labour, but depend instead on scarce capital resources.

5:3 HOUSING VERSUS INCOME GROUPS 1974 AND 1979

Having looked at the limitations of the policy and those of the housing finance agencies in the last two sections, this section analyses the housing that could be afforded by different income groups in 1974 and 1979 in Nairobi. Although most of the people in Nairobi are working in the informal sector information on their income groups was not available. This section therefore concentrates only on the wage employment by income groups for Nairobi,. These are as follows:

Table 5:2 Income groups for Nairobi 1974

Income group K.Shs. per month	No. of people	Percent age	cumulative percentage
Under K.Shs. 100	3,003	1.5	1.5
100 - 149	3,984	1.9	3.4
150 - 199	24,876	12	15.4
200 - 399	58,526	28.4	43.8
400 - 599	38,526	18.7	62.5
600 - 799	18,851	9.1	71.6
800 - 999	12,375	6	77.6
1,000 - 1,499	15,621	7.6	85.2
1,500 - 1,999	10,217	5	90.2
2,000 - 2,999	9,781	4.8	95
3,000 and over	10,315	5	100
TOTAL	206,132	100%	

Source: Central Bureau of Statistics.

Table 5:3 Income Groups for Nairobi 1979

Income group K.Shs. per month	No. of people	Percent age	cumulative percentage
Under 150	260	0.1	0.1
150 - 199	4,002	1.8	1.9
200 - 399	14,672	6.6	8.5
400 - 699	62,561	28.0	36.5
700 - 999	37,541	16.8	53.3
1,000 - 1,499	37,615	16.9	70.2
1,500 - 1,999	22,188	9.9	80.1
2,000 - 2,999	18,869	8.5	88.6
3,000 - 5,999	17,809	8	96.6
6,000 and over	7,531	3.4	100
TOTAL	223,048	100	

Source: Central Bureau of Statistics.

Given that one can be given a loan of 2½ times the annual income and that one is supposed to pay 25% of his monthly income for housing the following table shows the loan one could be given and the affordable rent in 1974 and 1979.

Table 5:4 Rent and Loan availability based on Income 197

Income group K.Shs. per Month	No. of people	Affordable rent	Available loan K.Shs.
Under 100	3,003	25	3,000
100 - 149	3,984	25 - 37	4,470
150 - 199	2,486	37.5 - 49	5,970
200 - 399	58,526	50 - 99	11,970
400 - 599	38,526	100 - 149	17,970
600 - 799	18,851	150 - 199	23,970
800 - 999	12,373	200 - 249	29,970
1,000 - 1,499	15,621	250 - 374	44,970
1,500 - 1,999	10,217	375 - 499	59,970
2,000 - 2,999	9,781	500 - 749	89,970
3,000 and over	10,315	750 +	90,000
TOTAL	206,132		

From Table 5:4 77.6% (160,139) of the people earn less than K.Shs. 1,000 per month and 17.4% (25,838) earn between K.Shs. 1,000 and K.Shs. 2,000 per month. If we talk in terms of what one can afford then the finance given for housing does not serve the majority of people because the structures constructed since Independence are too expensive. This amount of loan which could be given according to peoples incomes are too low and the profit making agencies would not find it profitable to give such loans. For example, since Independence the minimum loan given by HFCK was 90,000 which means that according to these income groups 95% of the people did not qualify for the loan because of their incomes.

Also looking at what NHC has done, it can be seen that most of the structures built were too expensive for the majority of the people. For example, between 1971-74 the average cost per unit was K.Shs. 42,820. If one paid 10% downpayment the loan amount would have been K.Shs. 38,538. This means that 50% of the wage earners would not qualify for this loan. The percentage of the population who do not qualify would even be higher if the figures for people working in the informal sector were available since most of them earn less than K.Shs. 1,000 per month.

By 1979 the situation had not changed very much (see Table 5:5).

Table 5:5 Rent and Loan Availability based on income 1979

Income group K.Shs. per Month	No. of people	Affordable rent	Available loan K.Shs.
Under 150	260	37.5	4,500
150 - 199	4,002	37.5 - 49	5,970
200 - 399	14,672	150 - 99	11,970
400 - 699	62,361	100 - 174	20,970
700 - 999	37,541	175 - 249	29,970
1,000 - 1,499	37,615	250 - 374	44,970
1,500 - 1,999	22,188	375 - 499	59,970
2,000 - 2,999	18,869	500 - 749	89,970
3,0-0 - 5,999	17,809	750 - 1,499	179,970
6,000 and over	7,531	1,500 +	180,000+
TOTAL	223,048		

From Table 5:5 88.6% could not have got any finances from HFCK since the HFCK has not given any loans below K.Shs. 90,000. Again the majority of the wage earners do not qualify for loans. The incomes of the majority of the people working in the informal sector are very low. These plus over 53% of the people earning less than K.Shs. 1,000 comprise the majority of urban population.

From this analysis it is evident that the agencies do not serve majority of the urban people. Realising that this section excludes those in informal sector then the problem is more acute because that is where the majority of the income groups are. All in all the victims have been those who cannot afford and since there is a great shortage the agencies will still continue to build according to the forces of demand and where they can get most of the profit. As long as the acute shortage of houses in all income groups continues it is unlikely that the private agencies will seriously serve the low-income groups. Since the objective is to make profit they will continue to concentrate on the middle and high income groups as they have been doing since Independence. It would therefore be unrealistic to expect them to provide housing for this group. This then leaves a great responsibility to the public agencies whose responsibility is to provide all the city dwellers with housing.

CHAPTER 6

6:0 SUMMARY CONCLUSIONS AND RECOMMENDATIONS

6:1 SUMMARY

The study focused on the role played by eight selected finance institutions in provision of housing. Special reference was given to their role in relation to low-income housing. The housing finance agencies were divided into public and private housing finance agencies. The study analysed the past, present and future activities of these eight finance institutions. These activities have been analysed in terms of their achievements, and effectiveness in the provision of housing for Nairobi residents and especially the low-income groups. The development of housing depends on the availability and accessibility of finance. The finance has been provided by housing finance institutions eight of which are analysed in this study. These housing finance institutions have established terms and conditions for providing the finances. The terms and conditions have been given special attention since the terms determine accessibility of housing finance.

Both public and private housing finance institutions work with a given policy framework. Thus the policy and the limitations have also been analysed to show the part they have played to guide development of housing in

Kenya and specifically in Nairobi.

The analysis established that due to the large sums of money involved in housing the lower-income groups are not able to afford conventional housing without accessibility to finance. The extent to which the low-income groups get conventional housing depends very much on whether they have accessibility to finance. The terms established by these housing finance institutions are highly restrictive and hence exclude most of the low-income groups.

The policy on provision of housing finance for low-income groups has been vague and this has resulted in increased overcrowding and substandard housing. These substandard housing have been people's way of solving their housing need. The policy has also been inconsistent with implementation as a result of which the actual output has been different from the estimated housing need. Since Independence housing output has fallen short of the estimated need. The lack of clear cut policy on the use of finances especially for low-income groups, has led to finances being used for high income groups. This is especially so with the NHC which is supposed to implement the government's policy. More than 60% of the NHC funds since Independence have been spent on middle and high income housing. Also the standards laid down by the policy are too high and the low-income groups cannot afford building the required standard dwellings. The study also established that the finance institutions have played and continue to play a very major role in providing housing for Nairobi residents since Independence. This makes the operations of the finance agencies very important in provision of housing.

6:2 CONCLUSION

After the analysis certain conclusions were arrived at. These include the fact that Finance Institutions play a very major role in provision of housing. This was shown by their operations and activities since Independence. Inspite of the significant role played by the agencies, these agencies have remained very institutionalised and not easily accessible to the urban poor who comprise the majority of the Nairobi population. Although the majority of the poor urban families cannot pay immediately and completely for housing of their savings, they cannot do without housing. The terms laid down by the conventional housing finance agencies for acquiring finance for housing are not suitable for these low-income groups. These terms are too high and the agencies have ended up channelling their finances to middle and high income groups. Most of the finances in public and private agencies have been devoted to middle and high income group Finally the rigidity of conventional finance institutions has had a negative effect on the availability of funds especially to the low-income groups.

6:3 RECOMMENDATIONS

In view of the problem stated above and elsewhere in the text the study recommended the following.

(a) Policy Recommendations

It is recommended that there should be a very clear cut housing policy for the low-income groups. It was stated that housing policy is vague and unrealistic. Inspite of stating the required number of housing, finances are not usually available. This has led to housing shortage which is very acute among the low-income groups who do not usually get access to finance for housing. The policy should clearly state the programmes and finances for implementation in relation to housing need. The number and type of the structures should be specified and the source of available finance and the implementing agency. This is the only way that implementation can be ensured. The policy in the past has not given full responsibility for implementing low-income housing to any agency.

Although the NHC is the one supposed to implement housing for low-income groups it is not specified how many structures they should have completed by a certain time and how much finance should be devoted. Where these aspects have been specified nobody has followed up the reasons why the structures were not implemented. As a result of these vague policies both public and private housing finance institutions have mainly concentrated on higher income groups. If the housing finance agencies had a specified number of units to be completed by a certain time they would be able to take responsibility. Since it is the responsibility of the public finance agencies to provide housing for the low-income groups the agencies should strictly concentrate on providing housing for low-income housing. These agencies should give priority to low-income housing by committing their finances to low-income housing. And the private sector should mainly be left to provide housing for middle and high income housing where they have concentrated their efforts to date

It is also recommended that before policies are made on housing intensive research on expenditure patterns and affordability capacity of the low-income groups should be done. Research on the current prices of building materials would also help to make realistic policies which can be implemented.

(b) Building by-laws

It is recommended that the building by-laws be made flexible to respond to low-income realities. The standards set are too high which makes the structures too expensive for the low-income groups. For example, the present standards require that the smallest unit should be two roomed with a shower, kitchen and toilet and it should be of permanent materials. The majority of the Nairobi population cannot afford to construct a structure of this nature. Low-income groups should be allowed to build one roomed houses with shared facilities. These should be several rooms with one corridor. This type of housing would increase urban housing stock and encourage other finance institutions to participate in providing cheap dwellings. For example, the Nairobi City Council has not built these cheap structures since Independence because the required minimum standard was too expensive. If allowed to build one roomed house with shared facilities the Council would provide housing for majority of the low-income people who would not otherwise afford any housing unit. This would contribute significantly to the provision of housing for low-income groups since not everybody will be accommodated in the site and service.

In addition to this not everybody can afford to construct a housing unit even if they were given a serviced plot.

Along with these is the demand for use of permanent materials in the construction of site and service schemes or any conventional units. It is recommended that these should be after a given time. For example, after one gets the serviced plot they should be allowed to use temporary materials for the rest of construction except for the foundation which should be built on permanent materials. The walls and the roofs should be improved and done with permanent materials after two years. Since subletting is encouraged, especially in site and service schemes, the allottees should have got enough funds to put up permanent structures. This was successful in the Kariobangi site and service schemes where people were allowed to start with temporary materials.

It is recommended that the definition of permanent materials should be revised. This would encourage use of different materials which are not necessarily so expensive and yet they can last for a very long time. An example of these are the solid stabilised blocks tested by the Housing Research and Development Unit of the University of Nairobi. These blocks use very little cement and soil which is not bought but can be acquired locally. These blocks are very strong and could be very useful in site and service schemes.

(c) Housing Cooperatives

In recognition of the potential role of well managed housing cooperative societies, it is recommended that the government should have a specified housing policy in relation to housing cooperatives. It also should get more involved in the activities of housing cooperative societies as in other types of cooperatives. The government should provide the housing cooperatives with manpower to deal with the technical administrative and the managerial aspects of the housing cooperatives so as to effectively deal with the already existing problems. The government should also provide loans through the Cooperative Bank of Kenya to the many cooperatives which have been registered but have not started their operations due to lack of finance. Loans in the past have been given to the agricultural cooperatives and these have been successful to some extent. Unlike the agricultural cooperatives, housing cooperative movement lags behind inspite of its potential contribution to housing for low-income groups. There is also a great potential for the housing cooperatives in site and service schemes as shown by the Gikomba Housing Cooperative Society.

Also with the present policy emphasis on site and service schemes, housing cooperative would go a long way in making this policy a success. For example some of the problems of the housing co-operatives that are not active include lack of serviced land. To encourage the cooperative movement a particular cooperative should be given serviced plots by the City Council. This would make it easier for the cooperatives to put up buildings, and increase housing stock for the low-income groups.

(d) <u>Provision of housing by employers</u>

The employers should be encouraged to be more involved in providing housing for their employees especially the low-income groups. The trend has been providing housing for the senior staff only. To encourage the employers serviced plots should be provided by the City Council at cheaper rates where the objective is not to make profit but to provide housing. This could also be encouraged by introducing compulsory savings where the employee could be made to pay a little percentage of their income for housing. These finances could be incorporated in a bank (e.g. cooperative bank) where the employees could borrow at a cheaper interest rate. Another possibility which is already undergoing discussion is the National Social Security Fund (NSSF) which could be a great source of finance for the employees. This could increase housing stock and ease the ever increasing shortage of housing. This should be supported by a housing policy to ensure implementation.

(e) Upgrading

Another recommendation concerns the existing substandard housing. Demolishing should be discouraged. Where this is the only alternative housing that the people can afford should be provided. In the past the housing provided has been too expensive and the people whose structures are demolished do not get any housing but have to look for their own alternatives which are usually not different from the ones demolished. Upgrading which is already in process in Nairobi should be given a greater emphasis.

(f) Involvement of housing finance institutions not yet involved

It is recommended that the housing institutions which are not currently involved in low-income groups be encouraged to do so. This could be done through the housing cooperatives societies which have been started and own a building or some savings. The former or latter could be used as security and the government or the City Council could act as a guarantor. These should be small loans and could be given either through the co-operative bank or according to the progress of the proposed scheme. The cooperatives could also have a savings scheme with the financing institution who would in turn give the required loan.

(g) Flexible mortgage terms and conditions

It is recommended that the terms and conditions of mortgage facilities should be flexible especially in the public sector. The minimum loan should be lowered to what people can afford. When the decision of the income group being served is being made the incomes of the people should be taken into consideration. House allowance should not be seen as the alternative to providing housing, where possible the housing allowance should be discouraged and housing provided instead. This has to be a policy decision and the government being the biggest employer would have to set the pace. This has implications on the overall budget of the country. It means that more and more finances will be committed to housing than it has been before.

(h) <u>NHC should train more staff</u>

NHC should train more of its own staff so as to reduce building costs. The NHC personnel would also experiment with other cheaper materials and this could greatly reduce the expenditure on housing materials and construction.

Of the stated recommendations priority should be given to clear cut housing policy since this presents the major problem. Special attention should be given to the terms and conditions of the housing finance agencies especially as it concerns the low-income groups.

6:4 SUGGESTIONS FOR FURTHER RESEARCH

All the issues concerning housing finance agencies in relation to low income housing have not been exhausted. There is need for studies to be undertaken on the nature of expenditure among the low-income groups to determine how much they can afford for housing.

A detailed study on the consequences of making the terms of housing finance institutions flexible should be done. Further research should be carried on the nature of the Housing Cooperative Societies and their potentialities in meeting the housing need for the low-income groups.

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APPENDIX 1

QUESTIONNAIRE

Name of the Agency
Person and Designation (interviewed)

1. What are the aims and objectives of the agency?

2. How do you relate to the Ministry of Urban Development and Housing to ensure that you implement housing policy?

3. How do you relate to other housing finance bodies and Ministries?

4. Where do you get your funds from?

5. What are the regulations governing the use of funds?

6. What are the terms of giving loans to individuals?

7. (a) What is the initial deposit?

   (b) What is the interest rate?

   (c) What is the repayment period?

8. What are the terms governing repayment of loans?

9. What are the housing types built or financed by the agency?

10. (a) What are the income groups served?

    Below K.Shs. 600 per month
    Below K.Shs. 700 - 1,200 per month
    Below K.Shs.1,300 - 1,800 per month
    Below K.Shs.1,900 - 2,500 per month
    Above K.Shs.2,500 per month

    (b) What is the percentage/amount for the low income groups? e.g. below K.Shs. 600 and between K.Shs. 700 - 1,200 per month.

    (c) Which income group is mostly served by the agency?

    (d) What is the percentage served?

11. Do they pay cost price for construction or Market Value of the property?

12. What criteria do you use in allocating funds to local authorities? If you do especially in Nairobi?

13. What do you do with unspent funds?

14. What problems do you face as regards housing finance?

15. How have you been able to solve these problems?

16. Given the increasing cost of construction materials how have you been able to cope with the increased demand of housing?

17. Has this affected the number of applicants or has the number of applicants continued to increase?

18. How many housing units have you been able to give loans for so far since Independence (in Nairobi)?

19. Have you been able to reach the targets set yearly and if not what has been the problem?

20. What are your future plans and programmes for financing housing? especially regarding low income groups?