DECLARATION

DECLARATION BY THE CANDIDATE

This thesis is my original work and has not been presented for a degree in any other University. No part of this thesis may be reproduced without prior permission from the author and or University of Nairobi.

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Date: ……………………………………………………………

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DEDICATION

To the memory of our late mother, Peres Achieng’ Ochiel, who passed on, on the 22\textsuperscript{nd} April, 2000
ACKNOWLEDGEMENT

This work has been a product of much contribution and assistance from not only individuals but institutions as well. For it to have reached this stage I truly feel greatly indebted.

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took good care of our children Wesley and Ryan who served as my reading partners throughout when we shared the reading table late at night.

Any errors and omissions rest with me.

To all, THANKYOU
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AMT</td>
<td>Akiba Mashinani Trust</td>
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<tr>
<td>BBS</td>
<td>Botswana Building Society</td>
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<tr>
<td>CLL</td>
<td>Common Law Leasehold</td>
</tr>
<tr>
<td>CLIFF</td>
<td>Community-Led Infrastructure Financing Facility</td>
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<tr>
<td>CMA</td>
<td>Capital Market Authority</td>
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<td>CSOs</td>
<td>Civil Society Organizations</td>
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<td>DPF</td>
<td>Deposit Protection Fund</td>
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<td>EABS</td>
<td>East African Building Society</td>
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<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>HFCK</td>
<td>Housing Finance Company of Kenya</td>
</tr>
<tr>
<td>HFI</td>
<td>Housing Finance Institutions</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>IIED</td>
<td>International Institute for Environment and Development</td>
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<tr>
<td>KASP</td>
<td>Kenya Affordable Shelter Project</td>
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<td>KBS</td>
<td>Kenya Building Society</td>
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<tr>
<td>KDA</td>
<td>K-Rep Development Agency</td>
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<td>MFIs</td>
<td>Micro-Finance Institutions</td>
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<tr>
<td>NACHU</td>
<td>National Co-operative Housing Union</td>
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<td>NBFIs</td>
<td>Non-Bank Financial Institutions</td>
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<tr>
<td>NCHF</td>
<td>Non-Conventional Housing Finance</td>
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<tr>
<td>NGOs</td>
<td>Non Government Organizations</td>
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<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
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<td>PBS</td>
<td>Pioneer Building Society</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<td>----------</td>
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</tr>
<tr>
<td>ROSCAs</td>
<td>Rotating Savings and Credit Associations</td>
</tr>
<tr>
<td>RUCFC</td>
<td>Rural and Urban Credit Finance Company</td>
</tr>
<tr>
<td>S&amp;L</td>
<td>Savings and Loan</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Savings and Credit Co-operations</td>
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<tr>
<td>SDI</td>
<td>Shack/Slum Dwellers International</td>
</tr>
<tr>
<td>SHHA</td>
<td>The Self-Help Housing Agency</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>SSA</td>
<td>Sub-Saharan Africa</td>
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<td>UGAFODE</td>
<td>Uganda Agency for Development</td>
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<tr>
<td>UML</td>
<td>Uganda Microfinance Limited</td>
</tr>
<tr>
<td>UNGASS</td>
<td>United Nations General Assembly Special Sessions</td>
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ABSTRACT

Kenya has a well-regulated financial system for its level of development. However, the mortgage finance sector which is competitive and innovative, serves only those households at the top of the income pyramid. This compounded by enactment of various legislation to regulate micro-finance institutions has further worsened the situation.

Even though sometimes public sector housing finance institutions have offered longer term loans to lower income groups, these have largely been restricted to borrowers with clear land title and certifiable income, a condition only met by a few public low-income housing projects, the vast majority of the target population remains excluded.

This study acknowledges that micro-finance for housing is an effective approach to the housing finance problem for the low-income earners. The approach reflects and builds on the progressive income of poor families and the progressive or incremental mode of constructing houses. The study has referred to these methods as Non-Conventional Housing Finance (NCHF) approaches.

NCHF approaches have succeeded in other countries like in the Latin America (e.g. Chile, Brazil), South Africa, among other countries, some of which were then at the same development level as Kenya. Therefore, the study sought to answer the question ‘Why has NCHF approaches as means of home ownership acquisition by urban low income households, not been significantly employed in Kenya to fill in the void or gap created by Conventional housing finance and/or mortgage industry’.

By adopting the exploratory approach through case studies, the research evaluated the existing typologies of NCHF as provided by the different organizations - the Providers, where various models - Product Types, were established. Further analysis of each of the key attributes was done. The various policy and legislative positions (written or unwritten) dealing with these Product Types were also analyzed. From the on-course projects, the level of customer satisfaction with these NCHF models was also a key unit of analysis. The products were categorized by the study as type 1 – for new housing projects, type 2 – for housing rehabilitation, type 3 – for infrastructure, type 4 – for resettlement and type 5 – for comprehensive models.

It was found out that in Kenya, NCHF concept has been frustrated both by existing legal framework and Government policy. The legal framework has made it very difficult for the
providers to avail housing finance to the urban poor due to the stringent provisions imposed on the providers that make the process expensive and untenable.

The study recommended a housing finance model that encompasses policy and legislative changes which would lead to appropriate macro-economic and regulatory frameworks for housing finance for the urban poor to leverage the urban poor housing stock. This must recognize that the urban poor build their houses incrementally. In addition, the policies and the legal frameworks must encourage the provisions of land, basic infrastructure and social services to the urban poor through recognition of the current ownership rights of the poor on the land that they own and occupy.
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CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

The UN-Habitat’s report (2005) states that within the next 20 years, there is little likelihood that in many developing countries, conventional sources of finance will be available for investment on the scale needed to meet projected demand for infrastructure and housing. Many countries around the world continue to face deficits in public budgets and weak financial sectors. This is the case in Sub-Saharan Africa (SSA), with at best, uneven growth in a few countries. In the countries that are experiencing improvements in their macroeconomic situation, governments in SSA are concerned that their banking systems are not providing adequate support to the private sector, which in turn affects whether or not formal housing finance is available. For example, in Ghana and Tanzania, only about 5 – 6% of the population has access to the banking sector (UN-Habitat’s report, 2005).

The experience throughout SSA is that the majority of urban poor households can only afford to house themselves incrementally. This means that the various stages of construction will be carried out over many years as financial resources become available. For example, land purchase, service installation, construction and upgrading of shelters will all occur over time. These being the case, short-term, small-scale loans are more suitable for these borrowers than long-term, large-value loans. The UN-Habitat report (2005) explains how, since their inception in the 1980s, the growth of Micro-Finance Institutions (MFIs) has been considerable, describing how microfinance often finds its way into being used for housing construction.

According to Daphnis and Ferguson (2004), housing finance is an emerging practice that applies key lessons that have been learnt from traditional microfinance. It intersects both housing finance and microfinance and incorporates elements of both. The authors suggest that there is a microfinance product-centred definition and a provider-centred definition. In the product-centered perspective, housing microfinance encompasses financial services that allow poor and low-income clients to finance their housing needs with methodologies adapted from the
microfinance revolution. These methodologies rest, mainly on principles for relatively small amount of loans, short repayment periods, and loan pricing covering the real costs, both operational and financial. Loans are not heavily collateralized and are used for financing housing needs incrementally. If the lender is an MFI, loans for housing can be linked to prior participation in savings or other more traditional aspects, e.g. micro enterprises, or loan services.

Microfinance services can further be categorized into two; as either stand-alone programmes or linked-programmes. Stand-alone microfinance does not rely on a prior loan history with the provider in order to demonstrate the borrower’s capacity to pay. The terms and conditions of the loan are meant to qualify borrowers based on the merits of their current financial profile and shelter needs. These loans are extended to individuals rather than groups, are for small amounts and have short repayment periods. Linked-programmes, on the other hand, rely on prior participation in micro enterprise or saving services, which are most often managed by groups of individuals.

In Kenya, the Government through the Ministry of Housing has estimated a housing need of 150,000 dwellings per year in Kenya’s urban areas (G.O.K, 2014). This goes far beyond what the formal production by the public and private sectors, which stands at not more than 30,000 units per year, can achieve, giving rise to an annual deficit of more than 120,000 housing units. The deficit is presumably met by slum housing (Mutero et al, 2006). The Actual Government expenditure on housing for the financial years 2009/10 to 2013/14, increased by 8.2 percent from Ksh 3.2 billion in 2012 to Ksh 3.4 billion in 2012/13 (G.O.K, 2014). The total number of the ongoing projects entailing design and construction was 1540 housing units located in Park Road (1000 units), Mombasa (200 units), Kisumu (180 units) and Nyeri (160 units). Approved expenditure in 2013/14 was Ksh 5.2 billion, while the actual expenditure stood at Ksh 3.5 billion. Approved expenditure on housing increased to Ksh 5.6 billion in 2013/14 financial year. This still falls far much below the housing requirement in urban areas in Kenya.

Access to decent housing by the urban households and especially urban poor in Kenya is severely restrained by various factors that hamper the urban poor households’ efforts in achieving complete or partial home ownership. These factors include the relatively low income
of households in relation to the high housing costs combined by limited financing options available to these households. Other hindrances include, land security, unsuitable legislations and building cords, political involvements and finally, rapid population growth and density, as is discussed in the following paragraphs.

In Nairobi, with a population of around 3-4 million people, nearly 60% of households live in slum areas. *Matrix Development Consultants* in 2006 surveyed these settlements. The results showed that 73% of households live below the poverty line i.e., less than 1 USD per person per day. On the other hand, World Bank estimates that only about 11% of Kenyans earn enough to support a mortgage (World Bank, 2013). This means that most middle income earners cannot afford an average mortgage necessary to buy an entry level house. The Kenya National Bureau of Statistics defines poor and middle income households as those whose monthly incomes fall between Kshs. 23,671.00 (US$260) and Kshs. 112,717.00 (US$1,330). This is far too little for the average loan size of Kshs. 6.4 million (about US$73,000), at 16.9% interest, and for over 20 years, would require a monthly payment of about US$1,067, and hence a monthly salary of at least US$3,200 which the urban poor households in Nairobi cannot afford (G.O.K, 2014).

It is estimated that around 90% households in Nairobi are tenants, forced into this type of tenure by poor access to land and, in some cases, by the deliberate choice to invest in their rural homes. Slums in Mombasa, the second largest town, are also characterized by high levels of poverty, and renting is the predominant tenure. In the other principal towns the poorest people typically live as tenants in slums except in Kisumu, the third largest town, where the degree of owner-occupation is relatively high (Syagga and Malombe, 1995).

According to G.O.K (2014), 60% of residents live in slums, a grim illustration of the central role that informal housing play in urban centres. In most towns, slum housing is built on either public or private land. In both cases the actual housing is of poor quality and dangerously overcrowded. The development of housing is normally made through private investment, albeit investment operating on the fringes of, or beyond, the law. Infrastructure barely exists. Although dwellings vary in quality from one settlement to another, they are generally built of temporary materials. In terms of supply, housing urban poor is also severely constrained by the limited availability of
land. Access to land in these settlements has historically been “managed” by gatekeepers consisting of officials in the provincial administration and municipal councilors. These gatekeepers are members of an urban elite that derive substantial income from rent seeking, at the expense of the urban poor. Gulyani et al., (2006) have drawn attention to the high rates of return in Nairobi slums, emphasizing that from this standpoint, slums provide “high cost” housing to the urban poor.

1.2 Problem Statement

From shacks in the shantytowns of Lima, Peru, to tin-roofed mud huts in the slums of Gujarat, India, insecurity of tenure, uneven and inadequate income streams force the poor to build their homes tentatively, one wall at a time. The poor lack access to suitable financial institutions and products tailored to the way they build. This is despite the fact that in many developing cities around the world, a majority of the population live in slums—60 percent of Nairobi’s population, 82 percent of Lima’s population—and that most housing are built informally and progressively (Malhotra, 2002).

Africa is urbanising fast, and demand and need for housing is not being met. The 2012 World Urbanization Prospects report from the United Nations emphasises that the two biggest factors driving urbanisation growth in Africa are first, the fact that Africa still has a very high natural population growth; and second that Africa’s levels of urbanisation have generally been low, and the continent is in essence playing catch up.

In these growing African urban centers, the majority are involved in building their own houses, incrementally. This has been long recognised; the early writings of John Turner emphasised the critical role of incremental home acquisition in urban centers. Recent studies by Tomlinson (2007) for FinMark Trust on housing finance in Zambia, Botswana, Malawi and Tanzania illustrates that the vast majority of urban dwellers build their own housing. However, the story of self-build and incremental housing is not limited to urban areas either; rural dwellers have also done the same using locally available materials. For the most part, to finance incremental housing, households use savings or general microfinance. Testimonies vary on the exact amount
of the latter. It is generally noted however that between 15 to 40 percent of general microfinance loans are used for purposes of housing development (Kihato, 2013).

Incremental building methodologies are also made necessary because of limited affordable housing supply in urban centers. Daphnis (2008) noted that in spite of significant demand for affordable residential accommodation, especially in metropoles, coupled with very low levels of supply, there are limited options for financing home acquisitions for middle and lower income earning individuals. Microfinance, specifically housing microfinance, offers an alternative method of financing home acquisition through its support of incremental building methodologies. Taking out loans they can afford, borrowers build their housing step-by-step, loan-by-loan, one wall at a time.

The majority of Africa’s urban dwellers and Kenya in particular, do not qualify for mortgages. Recent data from the World Bank’s Financial Inclusion Index (FINDEX) (2012), shows that formal access to and usage of credit is very low in sub-Saharan Africa. Mauritius has the highest rate of borrowing, where only 14 percent of adults were reported to have borrowed in the last 12 months. Mortgage lending is necessarily much lower given the more stringent requirements created by the longer terms and amounts for borrowing, the need for collateral and costly housing options in the market for this form of lending. FinMark Trust study on housing finance access in Zambia, Malawi, Botswana and Tanzania uniformly show that mortgages are utilised by less than 1.5 percent of the population to acquire housing (Tomlinson, 2007). Further, mortgage lending does not provide sufficient flexibility around payment terms and makes it difficult for people with irregular income streams. For example in Tanzania, a recent Bank of Tanzania study in the country has determined that only 28 percent of people sampled have incomes where evidence could be provided through some form of documentation, a critical requirement for mortgage lending. In addition, the supply of mortgageable dwellings in many urban centers is very low.

It is in this context that NCHF has emerged to finance the process of incremental self-build by the urban poor households. It enables this by adapting to the methodology of phased and incremental build, adjusting to the financial capacities and cash flow of the borrowers. The
Methodology refers to any micro financial tool that support investment in the components of housing, including land purchase or access, provision of or improvement to services, full or incremental house construction, renovation or maintenance.

Daphnis (2008), defines NCHF as encompassing financial services that allow poor and low income clients to finance their habitat needs through microfinance methodologies. It thus entails loans for relatively small amounts (but which are larger than general microfinance loans, typically from US$100 to US$5,000 – US$10,000), based on the clients capacity to repay. The repayment periods are relatively short in comparison with mortgages, but longer for general microloans (1-5 years) - generally, unsecured or sometimes collateral substitutes are used. Importantly, the property itself is not necessarily always used to secure the loan.

Credit expansion remains modest in most SSA countries. The ratio of credit to the private sector, to GDP is limited because the institutional framework is not supportive to lending (UN-Habitat, 2005). African cities are experiencing some of the fastest rates of urbanization in the world. The most striking aspect of these urbanizing cities is the extent of informal development, which is occurring. In many cities, the informal sector has outgrown the formal sector. Further analysis reveals that it is not just the urban poor that live in informal settlements, but also modest and middle-income households that are unable to access affordable housing. According to the UN-Habitat report on Financing Urban Shelter, a global Report on Human Settlements of 2005, the current systems are either affordable shelter that is inadequate or adequate shelter that is unaffordable. This situation with respect to states has arisen due to the limited funding and/or weak land and housing policy responses.

Lack of adequate supply of formal land is also seen as one of the pressing challenges associated with lack of housing provision. Land that has been surveyed and registered in a government’s deeds registry is the basis for making mortgage finance available by commercial banks. Unfortunately most SSA countries’ formal land systems are critically undeveloped. The nature of the problem in African cities is unique as it is based on the fact that traditional or ‘customary’ land is held on a tribal basis. Where this situation occurs, decisions about the use of land are made according to the customs of the tribe. Such decisions are rarely recorded in writing,
resulting in no evidential basis for the use of rights. In fact, the concept of ownership may be entirely alien to a particular tribe (Mary, 2007).

In effect, land has continued to be primarily state-held or traditionally held. Unable to access and own formal land, the majority of the urban population end up residing in informal settlements. Areas settled outside the formal system are generally lacking in basic infrastructure. The housing constructed is without reference to housing codes, but can range from quite a high standard to a very poor standard. Most important is the fact that the residents of informal areas, apart from lacking legal title, are unable to access formal housing finance (Mary, 2007).

Kenyan urban areas have an annual population growth rate of 16.74% given the interplay of migration, fertility and mortality. The urban population was projected to increase to about 15 million by the year 2010 (Government of Kenya, 1999, Syagga and Malombe, 1995). Many writers have recognized that the rapid population growth has made it difficult for the urban authorities such as the city of Nairobi to provide housing and the related support services resulting to an ever-widening gap between the supply and demand for urban services, notably in the areas inhabited by the poor urban households.

Nairobi, Kenya’s capital and largest city, comprises a quarter of the country’s urban population. The population density in Nairobi is 3,079 persons per square kilometre compared to 49 persons per square kilometre for the country as a whole. However, the official statistics do not paint the full picture of Nairobi’s density. More than half of Nairobi’s population live in informal settlements. These informal settlements comprise less than 5 percent of the total municipal area. Kibera, Nairobi’s largest informal settlement, has approximately 500,000 inhabitants and is one of the most densely populated places in Sub-Saharan Africa (GoK, 2010). The high density is largely due to high occupancy rates. The average number of people per room in Kenya is two, but in the informal settlements the number is four or more, with entire families living in single 10-foot by 10-foot rooms (Development Impact Consultants, 2000).

Due to the public sector’s limited role, the private sector has become the main housing provider in Kenya. In 1998, over 95 percent of the residential structures in Kenya were built and financed
through the private sector (GoK, 1998). The housing sub-sector has recorded growth in the value of building plans approved and completed buildings in the recent past. Value of plans approved showed a significant increase of 34.2 percent from Kshs. 181.1 billion in 2012 to Kshs. 243.1 billion in 2013. Nairobi County registered an increase of 41.1 percent to stand at Kshs. 190.6 billion in 2013 (GoK, 2014). This is partly explained by increased activity in real estate to cater for rising demand for housing due to the rapid population growth in urban areas. National Housing Corporation (NHC) completed 215 residential units in Nairobi at a cost of Kshs. 995.4 million in 2013 compared to 488 units completed in 2012 at a total cost of Kshs. 1,979.02 million.

The total number of reported private building completed increased by 8.0 percent from 5,981 in 2012 to 6,463 in 2013. However, the total number of public buildings completed decreased from 2,035 in 2012 to 376 in 2013, during the period (GoK, 2014).

Table 1.1: Reporting completions of New Private and Public Buildings in Counties, 2009 - 2013

<table>
<thead>
<tr>
<th>Year</th>
<th>Private</th>
<th>Public</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Residential</td>
<td>Non-Residential</td>
<td>Total</td>
</tr>
<tr>
<td>2009</td>
<td>3,557</td>
<td>103</td>
<td>3,660</td>
</tr>
<tr>
<td>2010</td>
<td>4,715</td>
<td>421</td>
<td>5,136</td>
</tr>
<tr>
<td>2011</td>
<td>4,912</td>
<td>525</td>
<td>5,437</td>
</tr>
<tr>
<td>2012</td>
<td>5,324</td>
<td>657</td>
<td>5,981</td>
</tr>
<tr>
<td>2013</td>
<td>5,640</td>
<td>823</td>
<td>6,463</td>
</tr>
</tbody>
</table>

Source: Improved from Economic Survey 2014

Table 1.1 shows analysis of reported value of new private and public buildings in selected counties. The total value of new buildings increased by 7.0 percent from Kshs.51.6 billion in 2012 to Kshs. 55.2 billion in 2013, on account of an increase in the value of private buildings. The value of public buildings decreased drastically from Kshs. 4.7 billion in 2012 to Kshs. 1.0 billion in 2013. In spite of the glaring demand, the supply of formal housing-finance institutions...
is shrinking and geared toward upper-income households, leaving fewer options for poor urban dwellers.

Poor urban households in Kenya, therefore, face a limited housing supply worsened by the rapid urban population growth. Moreover, many existing structures are in dire need of repair. Government of Kenya report on the housing situation indicate that more than half of urban homes (53 percent) are substandard, failing to meet basic building codes (G.O.K, 2014).

The expanding urban population and a limited housing stock suggest strong potential demand. However, the demand has not been met by formal housing finance provision as compared to the microenterprise finance sector, which is well established and relatively strong and meets the demand. Although the high percentage of renters limit the number of families that would qualify for a home improvement loan, the focus groups conducted for this report make it clear that most renters hope to eventually own their own homes.

Despite this apparent market potential, housing provision for the urban poor in Kenya is nascent. Why are more MFIs not providing housing finance for this category of clients when the need for housing particularly among the low-income households is rapidly increasing? Why do so many more poor families end up renting rather than completely acquiring their own home as in many other developing countries? The answers to these questions can be found, at least in part, by looking at the enabling environment for housing acquisition in Kenya, particularly in terms of how the available micro-finance (HMF) initiatives are affected directly or indirectly by land security, building codes, political environment and affordability as obstacles in housing provision for urban household in Kenya.

The resources available are appropriate only to households at the top of the income pyramid. The most critical challenge in housing the urban poor, therefore, lie in developing ways and means to make finance accessible to the poor. Organizations such as NACHU, Akiba Mashinani, Jamii Bora and K-Rep have strived to build the capacity to mobilize low income groups by organizing them into legally recognized bodies, to save regularly and to repay loans in a timely fashion, and with some technical assistance, to act as housing developers.
More recently an unbalanced supply across market segments has been observed, with broad supply to the upper middle income and high end market, insufficient supply persist at the low and lower middle income segments (GOK, 2014). An estimated 50 000 units were produced in 2012, up from previous years but still not enough to meet the estimated annual demand of about 150 000 units. Although some efforts have been made in this direction, they remain modest and of limited impact. To go to full scale, it is important to develop institutional mechanism for expanding substantially the volume of suitable housing micro-finance, that would address the need of the low-income urban household and which would enhance incremental building.

Coupled with the above challenges, there are also several legislations that regulate micro-finance institutions enacted in Kenya. A critical drawback in this area seems to be the fragmentation of legislation governing deposit-taking institutions. For example, the Central Bank of Kenya Act Cap 491 Revised Edition 2012(2010), regulate financial institutions, including mortgage institutions; the Micro-finance Act Cap 493D Revised Edition 2012(2006) is for micro-finance business, and the Building Society Act Cap 489 Revised Edition 2012(1989), regulates savings for building societies and credit cooperatives, while, at the same time, Cooperative Act Cap 490 Revised Edition 2012(2005) regulates credit cooperatives, while, Societies Act Cap. 108 Revised Edition 2012(1998) regulates operations of all societies. All these Acts regulate individually the micro finance sector with no reference to each other.

It is also worth noting that sometimes public sector housing finance institutions have offered longer term loans to lower income groups. These have largely been inappropriate and restricted to borrowers with clear land titles and certifiable or regular income. This condition is only met by very few urban poor households who are meant to benefit from such public low-income housing projects. The vast majority of low-income households remain excluded. Typically, these institutions often enjoy government support in the form of tax breaks, regulatory advantages and the allocation of capital savings. Given the limited resources available, it is not surprising that the number of houses financed is limited relative to total housing requirements (Rubinstein, 2001).
Microfinance for housing is however considered as an effective approach to the housing finance problem for the low-income earners. In Chile, Brazil and South Africa, the approach reflects and builds on the progressive income of poor families and the progressive or incremental mode of constructing houses. The loans sought through such financing mechanisms are usually small and short-term and are designed to suit the repayment ability of low-income families. The urban poor in this given case are households whose monthly income stand at Kshs. 6,000 (USD 80) or less a month, as is the case with Mwiki, Kiambiu and Huruma slums, (Mutero, 2007). However, the microfinance approach of home financing has not been adequately developed in Kenya to benefit at a larger scale the majority of the urban poor. This creates the inability of the urban poor to acquire own housing that the research aims to study. Most of the poor urban households cannot afford housing built by formal developers, and as a result, the majority address their housing needs incrementally, independently and often informally. This contributes to a growth in slum dwellings and poor quality housing due to unsuitable funding. The housing backlog is estimated to be two million units. Research by a slum dwellers umbrella body, Muungano Wa Wanavijiji, found that 70% of Nairobi’s housing stock comprises single 10 square metres shacks made of wood, mud, tin galvanised sheets, or wattle.

The study therefore, examined alternative ways that the poor urban households use to finance their home ownership as the available formal mechanisms do not address their problems. The study undertook the exercise with a view to identifying an ideal enabling environment, that the Government of Kenya and many different institutions, including banks, finance companies, or NGOs would employ to provide flexible, affordable, quality savings and loan products to poor urban households. The issues examined include; Poor Financial Services Legislation and Regulation: As observed, the Banking Act has profound limiting effect on both the ability of institutions to enter the market and the types of products they can offer; Lack of adequate service providers and hence lack of competition and innovation to improve their products and services hence allowing inefficient institutions to survive; finally, inadequacy of existing products, which are generally inappropriate for poor households, or unsustainable, or both. Without improvements on the above factors, an active market for housing finance for the poor will not exist in Kenya.
1.3 Research Objectives

1.3.1 Overall Research Objective

The research evaluated the existing non-conventional approaches to housing finance in Kenya.

Specific objectives:

i. To evaluate the different types of non-conventional approaches for accessing housing finance by the urban poor.
ii. To evaluate the effectiveness of legal and institutional frameworks and environments under which NCHF lending institutions operate.
iii. To establish the extent/levels of satisfaction by the low income-urban households with available NCHF Models.

The study looked at the objectives with a view to recommend a pro-poor housing finance approach that can be replicated elsewhere.

1.3.2 Research Questions

i. What are the available types of Non-Conventional Housing Finance (NCHF) approaches for low-income urban poor households in Nairobi, Kenya?
ii. What are the legal, institutions and credit environment under which these NCHF approaches operate in Kenya?
iii. To what extent are the low income urban households satisfied with the available NCHF Models?
iv. What are the key lessons learnt that could help shape the pro-poor housing finance policies?

1.4 Research Hypothesis

The research hypothesis states that:

“Shortage of housing for the urban poor households is as a result of inadequate and inappropriate housing finance for house acquisition by the urban poor”
1.5 Relevance of the Research

The study looked at the NCHF as an option that holds promise for housing the urban poor from a housing perspective for three main reasons. First, it fits well with the incremental building process used by the poor and low/medium income majority. Most lending occur for land purchase, improvement, and expansion, in effect, for the major phases of the incremental building process. Secondly, it helps to solve two basic difficulties encountered by traditional mortgage finance in developing countries: the mismatch of the very short-term liabilities available on financial markets in developing countries with that of long-term mortgage assets; and a highly limited market caused by the high cost and unsuitability of conventional mortgage finance for the poor and low/moderate-income majority. Finally, it can play a critical role in reducing and better targeting housing subsidies. When they get a loan, low-income households need less in subsidies to afford a modest housing solution. Systematic scaling-up of some of these successful innovations is necessary to have a real impact on the availability of housing finance for the urban poor. The intention is that these findings will advance best practices, inspire replication and adaptation, and increase the availability and affordability of shelter finance for urban poor households. Rapid urbanization has put an enormous strain on an already stretched urban infrastructure, housing stock and services, and has resulted in the proliferation of informal housing settlements.

The study endeavors to highlight the principal pillars of the non-conventional housing finance for the low-income groups. It will be a resource output for various stakeholders involved in self-help housing finance strategy for the low-income urban households. The study is hinged on the need to fill the gap that has been created by lack of information regarding the informal means by which low income urban households finance their housing acquisition, considering that most previous studies have dealt with formal institutions or government financing. For instance, development of informal housing by Syagga and Malombe (1995). Such information gap has always led the formal financial institutions, as provided by the Central Bank of Kenya Act Cap 491 Revised Edition 2012(2010), to make discriminative economic and legal decisions against the non-conventional methods of housing finance from a point of inadequate knowledge.
This research is an initiative to focus on the still nascent practice of financial institutions providing housing loans to poor clients on commercially viable terms. These loans are distinct from mortgages in that they are typically not for the purchase or construction of new units, but rather for home improvement and progressive building. They are being offered as a new product line by a generation of financial institutions that built their success on providing working capital loans to the urban poor, and are now looking to expand and diversify their products. To date, few of these experiences had been viewed through the prism of scale, outreach and sustainability. The findings of the study will also form a benchmark for future endeavors in the formulation of policy on non-conventional housing finance for low-income groups.

1.6 Scope of the Study

The study evaluated some of the existing NCHF approaches in the geographical boundary of Nairobi city under NACHU, Pamoja Trust and Jamii Bora as service providers. The research also dwelt on particular case studies in two levels. Level one consisted of the loan providers while level two had the membership (beneficiaries) of these loan providers. With this kind of set up, the study established the available types of models applied as NCHF approaches for low-income groups; the extent to which the available legal institutions and credit environment under which these NCHF approaches operate in Kenya influence their capacities to deliver; and in so doing the study established the level of customer satisfaction with the various models under study.

Chart 1.1: Schematic Scope of the Research

1st LOAN PROVIDER with its NCHF models

2nd LOAN PROVIDER with its NCHF models

3rd LOAN PROVIDER with its NCHF models

Nth LOAN PROVIDER with its NCHF

NCHF LOAN PROVIDERS TO LOW-INCOME GROUPS FOUND IN NAIROBI

LOW-INCOME HOUSING

Source: Author, 2015
1.7 Operational Definitions and Concepts

The terms and concepts are defined as they are used in this research:

i. **Evaluation**
   This is an exercise that attempts to assess systematically and objectively the relevance, performance and success of ongoing and completed programmes and projects. In this context, it is undertaken selectively to answer specific research questions to determine the relevance, efficiency, effectiveness, impact and sustainability of NCHF programmes or project

ii. **Non-Conventional Housing Finance Approaches**
   These are housing finance arrangements that are not yet recognized in any legal statute (Daphnis, 2008). They are viewed as bridge loans. Borrowers have been rejected by conventional mortgage lenders for many possible reasons such as poor credit, employment history, bankruptcy or lack of regular income. The loans are slightly easy to obtain, but because they carry more risks on the part of the lender, they also have significantly higher interest rates. They are short-term financing for investors.

iii. **Housing Societies**
   These are organized groups or Savings and Credit Co-operations (SACCOs) whose main reason for coming together is to get a housing facility by way of either buying or building.

iv. **Slum**
   Any housing development that is not formal.

v. **Apex Co-operative**
   This is a kind of co-operative grouping whose members are strictly co-operative societies

vi. **Co-operative society**
   This is a kind of groupings whose membership are individuals not less than six and more than twenty five and is registered as a co-operative society by the Government of Kenya under Co-operative Society Act.

1.8 Organization of the research

Chapter one introduces the basic concepts of the research, the problem, and how the research has been formulated. It further looks at the relevant study objectives, research questions and the hypothesis and the organization of the study.
Chapter two which is literature review endeavors to answer the questions behind the macro-economic conditions that affect housing finance in the Sub-Saharan region. Further it looks at the land factor and into detail, it analyses some of what could be considered as the best practices with regard to housing micro-finance for the low-income households in selected countries within the Sub-Saharan region. At the end, it gives a conceptual model of the study.

Chapter three brings to the fore the research methods used in the study. It looks at the research design, choice of method, sampling methods which include the selection of dwellings and selection criteria of respondents. The chapter also looks at the research approach, data collection tools and how the data was analyzed. Finally it looks at the scope and organization of the study.

Chapter four deals with the analysis of Kenya’s housing finance in perspective, the various NCHF models as applied by various organizations in Kenya, how the formal institutions influence the operations of these models and the extent of customer satisfaction.

Chapter five contains the various recommendations in the form of policy interventions to the phenomenon of housing micro-finance in the context of enabled environment by the concerned authorities and service providers.
CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction
The chapter briefly reviews general literature on housing finance including principles of low cost housing finance models, global low cost housing interventions and selected cases on low income housing finance approaches in Africa. The chapter also reviewed legislations in Kenya and policies which shape the provision of housing finance in Kenya. The chapter developed a conceptual framework for the research based on housing finance models studied from best practice in Africa and also informed by global best practices. The chapter aims at offering an in-depth analysis of the most common housing finance models for low income urban households in the developing countries like Kenya which would give policy makers a tool to evaluate these models within the country.

2.2 Principles of Low Cost Housing Finance Models
Financial transactions, except for self-finance, involve at least two parties. Though financial transactions can attain great complexity, their essence can be portrayed in terms of a simple loan transaction: Party A lends money or resources to Party B at time t and expects to be repaid at some future time t+1. At one level, this simple example may seem to be trivial and uninteresting but it conveys the essence of finance: the time dimension, and the lender's expectation of repayment. Because repayment occurs at a future date, separated in time from the initial loan, the lender is generally concerned about the guarantee of repayment. Before making the loan, the lender will want to be assured that the prospective borrower is likely to repay the loan (and any interim interest that is charged); and even during the period of the loan the lender is likely to want to be assured that the borrower's actions are consistent with timely repayment. But the lender faces problems of “asymmetric information”; the borrower is likely to know more about his or her own proclivities with respect to repayment than does the lender. Consequently, approval for finance is associated with extensive efforts involving pre-loan information gathering and assessment of potential borrowers, and monitoring of actual borrowers during the loan, with institutions and practices arising in order to facilitate these information-intensive processes. In
general terms, the processes of finance can be described in terms of the informational transparency or opaqueness of potential borrowers, as portrayed in Figure 2.1 below.

**Figure 2.1: Process of Finance**

![Figure 2.1: Process of Finance]

*Source: Adopted from UNECE 2005 Report*

In the Figure 2.1 above, potential borrowers are arrayed along the horizontal line, according to how informationally transparent (or opaque) they are with respect to the finance-related information that a potential lender would want to know. At the left side would be, for example, an urban poor who is entering the labour force and who has had no previous financial transactions; he/she has little in the way of a “track record” that can assure a lender as to repayment, and is thus highly opaque. At the right side would be an institution whose track record for repayment, is transparent and well regarded. In between would be individuals, enterprises, organizations, and Governments of varying degrees of transparency.

These potential borrowers can be matched with various lenders, which can be roughly grouped into three categories. At the far left, the very poor highly opaque borrowers are likely to have to rely for their finance, on family and friends, who may have special information about the individual or particular means of extracting repayment or who may be willing to provide “concessional finance” by converting a loan into a grant. At the far right, highly transparent (and reliable) borrowers can access the securities/bond markets, where bonds are purchased by investors (who thus lend to the borrower) who rely heavily on publicly available information.
about the borrower and his/her reputation. In between, financial institutions which are information gathering and assessment specialists (such as banks and other depositories, finance companies, insurance companies, venture capital firms) are likely to be the sources of finance for borrowers of intermediate transparency/opaqueness. The legal framework, the institutional and historical context in which the financial transactions are embedded are likely to influence the specific mix of which kinds of lenders provide what kinds of finance to which borrowers. This indeterminacy is indicated by the “wiggly” lines that separate the three categories of providers of finance. Finally, the arrows above the separation lines point to the left. This is meant to indicate the direction in which technological change in finance has pushed the boundaries. The left-hand boundary has moved to the left as well, as technological change has permitted banks and other lenders to provide finance (for example through credit cards) to individuals who previously could rely only on family and friends.

2.3 Sources of Finance for Home Ownership by the Urban Poor

2.3.1 Savings

Mitlin (2007) illustrates various dimensions of finance that are used by low-income households and demonstrated the significance of savings as the key source of shelter investment for low income housing. What is notable here is that savings emerge as the most important aspect for home ownership by households both outside and inside development programmes.

Sheuya (2007) describes the importance of savings in enabling the consolidation of housing acquisition in two low-income settlements in Tanzania. While savings was found to catalyze the development of most of the housing units selected for study in this case, renters and would-be owner-occupiers also help to finance construction, with advance rent payments to owners once settlements become more established. However, it is important to note that human capital and land are essential components of the successful transformation process.

The importance of savings is a reality in much of shelter investment. In Pakistan, savings by people financed the development for sanitation. In this case, the financing takes place within a
programme supported by NGO-provided technical assistance. What is notable about this Pakistan NGO, the Orangi Pilot Project, is the scale of its work and the evident capacity to go to scale of a model that uses domestic savings, once residents are convinced of its value (Hassan, 2012).

In South Africa and Namibia, the benefits of savings programmes are highlighted, with some residents choosing not to take up loans that they may be entitled to but, rather, preferring to finance improvements through savings. Mills (2007) describes the Kuyasa Fund which offers small loans (often placed within the rubric of microfinance) for shelter improvements. Savings are required prior to loan release and 65 per cent of members use their programme only for savings.

Matlin and Muller (2007) describe how many households within the Shack Dwellers Federation of Namibia prefer to use savings rather than loans to finance the extension of infrastructure from a communal to an on-plot facility. This involves a considerably lower risk for those with low and irregular incomes. Manda (2007) in the case of Malawi, and Mitlin et al (2007) in the case of Namibia, contend that savings are more than simply a means of financing shelter improvements; they are the core organizing “glue” that holds together local organizations, enabling them to build the trust and confidence necessary to identify collective priorities and implement development projects.

2.3.2 Loans from Agencies

An alternative experience is that of shelter microfinance through programmes, where agencies offer small loans for housing improvements. These programmes almost, always offer finance to individual households with reasonably secure tenure, as opposed to many urban poor in Kenya, usually for a room, an improved roof and/or floor, toilets and/or bathrooms. Shelter microfinance emulates many aspects of more enterprise-oriented microfinance and is often available through the same agencies. The trajectory of developments within KixiCrédito in Angola (Republic of Angola, 2011), illustrates one form of development with housing finance being offered to
those households that have been successful in enterprise borrowing. The methodology however, targets only individual households with prior stable incomes.

As noted above, in South Africa, the Kuyasa Fund is offering small loans for housing improvement. The agency assists households that have already benefited from state intervention through a housing capital subsidy programme that provides a plot with legal tenure, services and an initial dwelling. In both cases, the rapid development of loan programmes illustrates the scale of interest in borrowing opportunities within low-income settlements.

A similar model is identified by Llanto (2007) in the Philippines, where a government programme (Development of Poor Urban Community Sector Project) is responsible for supporting local authorities in site development and improvement and in providing a housing loan along with microenterprise finance. Stein et al, (2005) elaborates a further variation of this model, which is followed in a number of Central American countries and where local authorities coordinate the upgrading of low-income neighbourhoods. A range of local institutions offer loans to households to improve their homes and, in some cases, these can be combined with state subsidies. In every case, these loans blend with family savings and self-help efforts.

2.3.3 Group-lending

A third source of finance is the collective process of group lending, generally for more than just housing, and including investments in land and infrastructure. This model is exemplified in Namibia, Malawi and the Philippines.

In Namibia, Mutlin and Mulark (2007) reported that the Shack Dwellers Federation and its support NGO, the Namibia Housing Action Group, have developed a model proposal that includes regulatory reform, that enhance land purchase from local authorities, the extension of infrastructure provision and dwelling construction for the urban low income households. The model is affordable to some of the lowest-income citizens as the housing component does not have to be implemented immediately and land and service costs can be paid off first. However, it
is clearly limited in scale as many urban households with no regular incomes cannot be considered.

Manda (2007) discusses the work of the Malawi Federation, a sister to the Namibia Federation, and the development of 222 plots in Lilongwe. Group loans were taken to develop identical dwelling units. The political impact of these units has been considerable; the national government was sufficiently impressed by the speed and competence of their construction that it provided many other housing plots to the Malawi Federation. However, there is very little provision for sewers in the city, and the loan amounts has not been sufficient for septic tanks.

In the Philippines, the Community Mortgage Programme, provides an illustration of state support for collective lending, with credit being made available to groups of low-income households facing eviction from land on which they are illegally settled (Llanto 2007). In the case of Thailand, Somsook Boonyabancha (2005), describes how an innovative state-financed programme put in place community networks able to manage many aspects of the development process at a local and city level, as well as making loans available to communities for supporting upgrading or new house construction. The shift in the level of intervention from neighbourhood to city level is, therefore, very important in enabling finance to be used to transform options for some of the lowest-income and most disadvantaged citizens, and for working collectively to address diverse needs and interests across the city. City networks in Thailand work with local authorities in participatory planning and the allocation of both subsidy and loan finance. This enables the planning process both to prioritize the settlements most in need of upgrading and to consider how finance can be a tool to improve the local environment for the benefit of all. This method, however, relied heavily on Government and subsidy support which is not encouraged due to inability for long term sustainability.

2.4 Alternative Sources of Finance for Low Income Housing
These alternative financing strategies reflect the range of agencies that are engaged with this process. In some cases, the key agent is the people, managing as best as they can, as exemplified in the Tanzanian case (Sheuya, 2007). In Pakistan, the sanitation investments made by communities working with the Orangi Pilot Project, the key agent is also the people, but they are
supported by an NGO that provides technical assistance, catalyzing sanitation investments by providing an alternative effective model. In South Africa and Angola, the key agent is a microfinance agency that, in both cases, emerged from the work of conventional urban development NGOs: Development Action Group and Development Workshop, respectively. These examples highlight a tension for NGOs seeking to provide new shelter options for low-income households, with the demands of financial services being very different from those of advocacy. While in Malawi and Namibia, it is reported that the local grassroots organizations are networked through federations that enable peer-to-peer learning and that help pressurize the government to agree to regulatory reforms that reduce development costs (Mutlin and Mulark, 2007).

2.5 The Role of the State

The state rarely emerges as the driving force behind shelter finance initiatives in these cases, but its presence is very significant. This is highlighted in the above cases, for instance, in Angola, Malawi, Namibia and the Philippines. The role of the state was also important in examples noted from Pakistan and Thailand. Any shelter finance project that addresses tenure and service needs has to reach an accommodation with the state (although microfinance programmes providing individual housing loans for dwelling improvements can avoid this constraint). For example, in Angola, Cain (2007) discusses the significance of changing state policies on land rights in urban areas, with the Land Law of 2004. In Malawi, the grassroots savings schemes required the state to allocate land and then amend building regulations to enable traditional materials to be used. In addition, Mutlin and Mulark (2007), propose that the state should recognize the rights of the poor in the land they are currently occupying.

The persistent nature of state involvement in housing provision is noted very clearly in the cases of Malawi, Philippines and Brazil. While the nature of these programmes vary considerably in the different contexts, the scale of state involvement is evident in all. Even in a very low-income country such as Malawi, a range of government housing policies, have been noted although few programmes are to scale.
Valença (2007) discusses the situation in Brazil during the Collor administration at the beginning of the 1990s and explains how political elites manipulated the allocation of housing finance programmes to address their perceived political interests. What was particularly notable was the use of housing funds to secure political support in Congress. Llanto (2007) highlights the inadequate nature of such housing provision in the Philippines and notes that there has now been a shift to more market-oriented strategies following the failure of credit subsidies and high rates of default on government loans. Lack of support programmes specifically oriented towards the lowest-income residents is reported by the writer.

2.6 Global Intervention on Low Cost Housing Finance

From International Institute for Environment and Development (IIED), International Urban Poor Fund (IUPF) and the UK charity Homeless International, the efforts of development assistance to find an effective strategy to support shelter finance activities serving low-income groups, is a pre-occupying theme (Kihato, 2013) and (D’ Croz and Satterthwaite, 2005). The challenge faced by development assistance agencies is to identify modalities that enable flexible, locally managed finance that can respond to neighbourhood and city-level initiatives while maintaining the required accountability to the agencies that provide development finance.

The profile of Homeless International explains how the organization came under pressure to innovate alternatives to grant finance to scale up available resources (Marris and Malcolm, 2007). There is the emergence of guarantee finance to enable organizations in Africa and Asia to obtain loan finance from local banks in a way that facilitated other aspects of their work. Homeless International established a guarantee fund that has been used mainly in India, primarily, due to a prevailing favourable financial context.

The profile of Homeless International also describes another financial mechanism, the Community-Led Infrastructure Financing Facility (CLIFF). Marris and Malcolm (2007), contends that IUPF which is a capital fund provided through Cities Alliance that was developed to address the need for capital, to provide bridge financing for large redevelopment programmes.
CLIFF is a programme managed and part-funded by Homeless International that enables organisations to access greater public, private and civil society resources to deliver adequate and sustainable housing and basic services for slum dwellers. It provides financial support through capital funds (in the form of a loan, grant or guarantee) to enable implementing partners access finance or provide loans for project construction related costs. CLIFF sources its own; largely grant funding, through the British Department for International Development (also known as UKaid), the Swedish International Development Cooperation Agency and Homeless International. CLIFF and HI work in a number of countries throughout Africa, promoting housing microfinance and incremental housing development (Marris and Malcolm, 2007).

CLIFF provides venture capital and other financial products directly to organisations of the urban poor, rather than to government, to support community-led slum upgrading schemes conceived in partnership with city authorities - CLIFF can only therefore work where poor communities have built the capacity to manage slum-upgrading initiatives. According to Morris and Malcon (2007), CLIFF uses finance as a tool to bring poor communities (and the organisations which support them) right into the heart of urban development planning and action by: allowing communities to demonstrate strategies, processes and initiatives in practice that will either set, test or challenge existing slum development policies, acting as a forum for engagement between the poor and other stakeholders, helping communities consider city-wide development issues through prioritising flagship projects and supporting organisations of the urban poor in taking, managing and mitigating risks to achieve slum improvements at scale.

CLIFF is reported by Kihato (2013), to require collective housing and infrastructure solutions, as opposed to separate individual/household solutions. It is designed as a venture capital facility rather than a microcredit institution. In other words it supports flagship community-led slum development projects rather than providing credit to individual households. CLIFF offers technical assistance grants – so that professional help can be made available to communities to “package” projects in a way that banks and state authorities can deal with, loan financing to projects – to kick start community-led flagship initiatives, while, further negotiations with formal finance institutions and public officials to unlock local financial resources take place. Loans are fully repaid from income streams, which can then be recycled to pre-finance further projects.
CLIFF encourages, knowledge grants – for exchanges, visits and workshops so that as many people as possible are able to learn from the projects as they are developed and implemented.

According to Kihato (2013), to obtain CLIFF financing, projects must have the potential to be implemented as a flagship that provide precedents for future scaling up, replicability and pro-poor policy change. The projects must be build on established local organisation by communities of the urban poor and have existing relationships with local authority and the potential to strengthen such city-community relationships, actively include and benefit the poorest and most marginalised members of the community. They must be properly costed; be financially viable; and offer options for negotiating loan finance from commercial banking institutions and municipal/state subsidies where necessary. There is need to include an analysis of the major project risks, identifying what form these risks will take, who will bear the burden of these risks, and how CLIFF will assist in the management and mitigation of these risks. The analysis must incorporate a management strategy that identifies how project responsibilities will be allocated and undertaken. It must include long term planning for sustainability and maintenance of the assets developed and incorporate a learning and knowledge-sharing agenda to ensure that other communities and actors in urban development can benefit from the experience.

In Kenya, Homeless International continues to support NACHU through its five CLIFF housing projects to secure tenure and build appropriate housing for over 1000 people (Kihato, 2013). The money is channeled through cooperatives societies where individual beneficiaries save money. The projects entail the purchase of land, demonstration units as well as training for the beneficiaries to enable them to do incremental housing on a basic starter unit provided. While in Malawi, CLIFF has partnered with Malawi Alliance (a partnering of the Center for Community Organisation and Development and Malawi Homeless People's Federation) to fund access to land and home building materials for over 100 families for self-build as well as by chosen contractors (Morris and Malcom, 2007). The total cost of the project is US$ 400,000. While in Zimbabwe, CLIFF works with the Zimbabwean National Housing Cooperative (ZINAHCO) with a substantial amount of effort going into training and construction loan management for the cooperatives to help develop capacity (Morris and Malcom, 2007).
Rooftops Canada
Rooftops Canada is the international development programme of Canada’s cooperative and social housing sector, which works with Canadian and international partners to improve housing conditions, build sustainable communities and develop a shared vision of equitable global development (Kihato, 2013). In Kenya, Rooftops Canada has provided a first installment of US$245,000 to NACHU, which has enabled two housing cooperatives purchase land and build and upgrade housing for 545 families. Rooftops receives funds from the Cooperative Housing Federation of Canada and the Canadian International Development Agency. Usefully, this investment is also supported with technical assistance, and together with the CLIFF investment into NACHU, has given NACHU a strong base for its planned growth towards sustainability.

The International Urban Poor Fund (managed by Shack/Slum Dwellers International (SDI) (2012 & 2013) contends that IUPF and IIED, provides small grants throughout the SDI network of federations to catalyze local initiatives in secure tenure and basic services. It finances local urban poor funds and supports community-led advocacy to advance grass-roots solutions. Its contribution lies in the flexibility of the funds. SDI groups select those initiatives that drive forward a local pro-poor agenda and support these initiatives as required.

2.7. Intervention on housing the urban poor in selected Countries in Africa
In Africa lenders of Housing Micro-finance (HMF) span three tiers, from regulated first tier organisations which can raise capital from deposits, through to cooperatives and NGOs at the second tier and finally informal third tier lenders. First tier lenders include microfinance banks such as K Rep and Faulu Banks in Kenya and commercial banks, such as ProCredit in Ghana and Mozambique and Akiba Bank in Tanzania. Second tier lenders include SACCOs (savings and credit cooperative societies), cooperatives, and microfinanciers that offer HMF. They also include housing NGOs which branched into housing microfinance lending on recognising the demand, such as the Kuyasa Fund in South Africa. Others are microfinance institutions that have included HMF as an additional product to their microfinance lending for enterprises such as Ugafode in Uganda. The National Cooperative and Housing Union (NACHU) in Kenya is an apex SACCO formed in response to a common need for housing and has grown considerably since its establishment in 1979. Finally, there are third tier, generally unregulated HMF players
who include rotating savings and credit cooperatives (ROSCAS or stokvels) and other informal lenders.

International development organisations such as Rooftops Canada and Homeless International have given explicit attention to the growth of HMF lending capacity among housing NGOs and SACCOs as part of their effort to grow scale and address housing backlogs across the continent. They are in many ways the pioneers of explicit HMF investment and lending. As investor interest grows in HMF, the wider housing delivery chain is also receiving attention. At the forefront of this is Habitat for Humanity (HfH), which provides Construction Technical Assistance (CTA) to borrowers engaging with lenders offering HMF products. The SACCO and Cooperative sectors and housing NGOs often branch off into HMF lending, realising the need for a product to enable their members to finance their incremental self-build efforts. A good example is NACHU in Kenya, which has seen considerable growth in its various loan offerings.

**Tanzania**

The WAT Human Settlements Trust (WAT-HST) (2011) in Tanzania has been piloting a microfinance housing program for low and middle income households and communities since 2008. It is a multi-year programme with major funding from the Financial Sector Deepening Trust (FSDT), as well as other funders such as NBBL, Rooftops Canada, Homeless International and CLIFF. WAT-HST provides technical services and training necessary for housing delivery, and expanding the capacity of WAT SACCOs, who lend to their members for the housing development process (Kihato, 2013). Using considerable savings from the SACCOs themselves as well as a guarantee fund from FSDT to OikoCredit, funds were lent to HMF clients for various land and housing related loan products which include housing upgrading and housing construction. As of 31st December 2011, a total of 575 HMF loans were disbursed by WAT SACCOs amounting to a total of US$ 500,424 which translates to an average housing loan size of US$ 870 per beneficiary (US$ 760-1550 for loans for land). Out of these, 53 percent of the loans were disbursed to women. The total number of HMF clients by the end of 2011 was 1,266 (Kihato, 2013).
Uganda

Uganda’s housing finance sector, according to Tjonneland & Villanger (2013) is small in comparison to the increasing housing needs of the country and it has principally been serving the middle and high income earners. The lower income earners who constitute over 80% of the population have for long been left out. Housing micro-finance is on the whole a new product in the country’s housing finance sector. It employs a 2-way approach in which individuals can either access cash loans for home improvement or first get skills on how to build a house through loaned construction materials. Through MDIs, MFIs, SACCOs and other support programmes, housing micro-finance is expected to grow considerably due to a combination of significant donor funding and government support.

The Cash Loans Approach

Uganda Microfinance Limited (UML) is the only MDI in the country directly offering loans to the housing industry and issue home improvement loans. All their loans are secured and they do not exceed UShs 50 million (US $ 29,000), payable within 2 years at an interest rate of 36% per month. Other MDIs and MFIs like FINCA Uganda, Pride Microfinance and Women’s Finance Trust provide loans that have indirectly gone towards home improvement. Other initiatives for micro finance include Stromme Foundation and Habitat for Humanity Uganda (HFHU).

According to Tjonneland & Villanger (2013), Stromme Foundation, a wholesale lending institution, is one of these NGOs. It has a tripartite arrangement in which it issues housing micro-finance products through MFI to its clients. While National Housing Construction Corporation (NHCC) provide planned sites in which low cost houses are built from the loans issued by the MFI. Loans range between UShs 6 and 8 million (US $ 3,500 and 4,600), repayable within a period of 2 – 3 years. While, UML directly issues home improvement loans to low income earners through two of its branches in Luweero and Masindi Districts. The loans are disbursed in cash to the beneficiary at an average loan amount of UShs 1.4 million (US $ 805), payable within 2 years at an interest rate of 2% per month. HFHU is also financing Uganda Agency for Development (UGAFODE) – an MFI - to issue home improvement loans to its clients. HFHU also offers technical assistance on how to effectively manage this product. Before embarking on the above housing micro-finance initiatives, HFHU employed a product-led approach in which it
would design and construct low cost houses for the poor at about UShs 2.5 million (US $ 1437). Using the commodity index system, the poor would gradually pay for these houses within a 10 year period in a revolving fund. Unfortunately, repayments made were inconsistent and poor. As a result, HFHU adopted strict rules of repossessing building materials which led to improvement on repayments, though not satisfactorily. This factor and the imperative need for more creative innovations in providing housing to the poor created a strong impetus for HFHU to move from a housing provider to a housing micro-finance supporter. These projects targets individuals as opposed to groups.

• **Community Self-Help Projects:** Four self-help projects have been undertaken in Uganda to provide low-cost housing for the poor. They have all had a Public-Private approach and donor support (Tjonneland & Villanger, 2013). These include housing finance through credit rotation, saving clubs and SACCOs which are under government’s programme of “Prosperity for All”. The poor (who are unable to access the above means of housing finance) have been enabled to finance small scale businesses, and in some cases, they have been able to construct houses. However they do not have wide institutional coverage, and coupled with weak financial positions and their inability to operate strictly on commercial principles, further minimizes their chances of becoming sustainable. Since many poor individuals cannot provide conventional collateral to ensure compliance with loan repayment responsibilities, SACCOs issue loans on a revolving fund mechanism in which they do group lending where the borrower is not only responsible for the repayment of his loan, but also viewed as a guarantor for the outstanding loans of other group members (Tjonneland & Villanger, 2013).

• **The Masese Self Help Project:** The Masese Project one of the example of Self-Help Project was aimed at reaching 700 households, to improve on the housing conditions of the people in Jinja, Masese (Chwo, 1999). Its main actors included Jinja Municipal Council which provided the land; the Ministry of Works, Housing and Communication that provided government support; and DANIDA which funded the purchasing of construction materials, the training of beneficiaries and the formation of beneficiary association. Beneficiaries were trained on how to transform to profitability and engage in income generating activities in addition to equipping them with skills in construction, infrastructure development and
maintenance. Plots of land were then transferred to each beneficiary for which they made an agreement on how they will pay back loans for the construction materials.

The rotating loans ranged between UShs 1.7 million and UShs 5.3 million depending on the size of the housing unit and they bore an interest rate of 4% per annum, repayable in 10 years. The project achieved 400 units built through and completed over the period, (Tjonneland & Villanger, 2013). The study also revealed that middle and low income earners employ the incremental building system – gradual home improvements as opposed to outright home purchase or construction.

**Summary of the Challenges of the Uganda case studies**
The Uganda’s case reveals some challenges, for instance, good number of beneficiaries being unable to repay the loans due to lack of sustainable incomes. As a result they sold off their plots and instead set up a slum nearby. Although a good number of the loans they issue unconsciously go towards home improvement, suitable housing micro-finance products like the incremental building loans and others that specifically address the housing needs of the poor are lacking.

**2.7.2 Botswana**

*Botswana Self-Help Housing Agency (1996 Abstract)*
The Self-Help Housing Agency (SHHA) programme has operated in the urban centers and some urban villages in Botswana since the early 1970’s. Initial funding was from foreign donors (particularly USAID) until responsibility for SHHA was given to the Housing Departments of the various Town Councils in 1978 from which date government has funded the scheme.

According to Botswana Self-Help Agency (1996) and Mosienyane (2011), in the SHHA programme, land is provided by the applicant. The SHHA applicants must be citizens and be formally employed or legitimately self-employed in the town or city where the application is lodged, must earn between P4 400 – P24 300 ($715 - $3 950) per annum to qualify for low-income plots repayable over 15 years. If the applicants qualify for a plot, they automatically qualify for a building loan.
In Gaborone, some 12,000 plots are reported to have been allocated since the inception of the SHHA scheme in 1973, and approximately 6,000 applicants have received loans. The projected demand countrywide for SHHA loans is about 54,000 on the basis of maximum entitlement of P20 000 ($3 250). It is estimated that 1 in 5 households requires a loan (1 in 3 in urban areas). Default rates have been high, partly due to poor debtor management by councils.

**Challenges of the SHHA programme**

While the SHHA scheme fills a vital role in providing land and housing finance to a segment of the low-income market, SHHA seems not affordable to many urban dwellers. Those earning below P 4 400 ($715) per annum or P366.67 ($60) per month are not covered by the scheme.

SHHA clients can borrow maximum of P 20 000 ($3 250). This maximum is regarded by many as being inadequate and has remained unchanged since 1998, with no adjustment for inflation. Recent studies by Finmark Research Trust (2007) suggest that the mean construction price of a standard ‘two-and-a-half’ (two-roomed house with kitchen and bathroom) in Gaborone is in the region of P35 000 – P 47 000 ($5 690 - $7 640), though, by including owner-input in the form of labour and minimal finishes, a ‘two-and-a-half roomed house can be built for as little as P20 000 ($3 250 -the value of a SHHA loan). The SHHA policy needs review, and Mosienyane (2011), suggest that a new maximum loan amount of P 45000 ($7 320) should be introduced.

Severe shortage of available plots, particularly in the key urban areas such as Gaborone, resulting in waiting period of as long as 10-15 years, coupled with slow rates of processing construction loans, inadequate and inappropriate management skills, impact negatively on loan repayment and sustainability.

The SHHA scheme, according to Mosienyane (2011), is primarily a government investment in low-cost housing, and while complete self-sustainability may well not have been feasible given the highly subsidized interest rate and liberal approval criteria, the financial performance of the scheme has nevertheless been below expectations. Future developments may require the SHHA scheme to be re-structured as a cost recovery entity.
Clearly the very poor (those with household incomes below P367 per month – 9.3% of the population) are excluded from SHHA scheme. Similarly those earning between P3 033 and P4 200 per month (7.2% of the population) are effectively excluded from SHHA scheme. They are considered to be earning too much to qualify for the SHHA programme, yet falling below the generally applied minimum for a commercial bank loan. The borrower must also be formally employed and have a bank account, hence excluding the very poor. These ‘excluded’ groups therefore find themselves in a position where ad-hoc solutions to housing finance are the norm.

From the literature, incremental building, as in Kenyan case, where the homeowner adds a room at intervals, as finances permit, is the most common form of house construction in Botswana by the poor. The SHAA scheme does not seem to address this category of urban households (Bobby, David and Herman, 2013). According to Rust (2007), research on incremental housing for Fin-Mark Trust, building controls and planning issues constitute serious obstacle to this form of housing provision. Land was also found to be very costly beyond the reach of the lower income groups. Implementation of housing standards in Botswana has had the effect of further increasing housing costs, while traditional construction using locally available materials is prohibited.

SHHA inspectors are reported (Mosienyane, 2011) to impose requirements even more stringent than required by the legislation, thereby further increasing building costs. Property transaction costs are viewed to be disproportionately high at the lower end of the property market, hence pose another obstacle to the low-income prospective homeowner. The cost range from 13.6% or P 2 450 ($400) for a property valued under P 20 000 ($3 250) - a significant disincentive to the poorer aspirant - to only 7.3% or P 14 600 ($2 375) for a property of P200 000 (32520).

According to Mosienyane (2011), Botswana’s Self-Help Housing Agency is a success story in terms of achieving its goals, i.e. to provide an effective means of access to affordable housing for low-income groups and to upgrade the existing squatter settlements. This study acknowledges the effort of SHHA in the provision of housing units, but raises questions of sustain-ability of the program as well as that of the built environment. Given that the SHHA program is financed by
Donor Agencies, the Government of Botswana should provide sustainable infrastructure to cope with incremental housing development and effective policies and housing environment for the less privileged.

2.7.3 South Africa

THE KUYASA MODEL

This model is a replica of Kenya’s co-operative society and is rooted in the group savings culture prevalent in the region. Members form groups in which peer-regulated and risk managed saving is carried out (Mills, 2007). Similar groups are prominent throughout the low-income areas Kuyasa serves and form an ideal base for transparent and secure savings where no formal financial services are available. Groups, usually but not exclusively, of women come together at weekly or monthly meetings to contribute their savings and receive payouts. Under the model, people are occasionally members of more than one such group, with different types of savings groups serving different purposes.

According to Kuyasa Fund Annual Report (2011), Kuyasa staff members make contact with and support a range of savings groups, recording clients’ savings and using the groups to market Kuyasa loans. These groups serve as a dual purpose: they regulate the risk to Kuyasa associated with lending as well as supporting clients through longstanding social and financial networks. Where required, saving training programmes are offered by Kuyasa to support the development of financial skills among participants and to promote good governance in saving groups. These saving groups frequently operate in parallel with formal financial products. Daily or weekly savings, often managed among neighbours or relatives, were found by Kuyasa to be cheaper, easier and more accessible and are without the costs associated with formal banking in South Africa. Saving with Rotating Savings and Credit Associations (ROSCAs), on the other hand, provides access to cash on a regular basis.

Mills (2007) contends that Kuyasa uses beneficiaries’ strong familiarity with savings groups as a requirement for accessing a loan, with potential clients being required to save regularly for a six-month period before they can apply for finance (Rust, 2013). This requirement serves a three-fold purpose: first, to prove an ability to save and manage finances; second, to ensure the
development of a relationship with other members of the savings group, which is harnessed by Kuyasa to encourage repayment through peer pressure; and third, to create personal savings to be added to the loan, increasing the amount of finance available for the completion of the housing project. Kuyasa does not take savings deposits but, rather, all savings remain in the control of savers. This research study concludes that, the environment and the circumstances are similar to the Kenyan case, however, the mode of implementation is superior, cheap and efficient.

Some of the requirements for Kuyasa finance include; Client income must be under ZAR 3,500 ($ 390) or self-employed (verified by pay slip, visit to business or telephone confirmation by employers); identity document; title deed/municipal account proving residency at stated address and membership of a savings group (verified by savings book), must be subjected to Credit bureau check (Mills, 2007). Terms of Kuyasa finance include interest rate of 38 per cent per annum, minimum loan of ZAR 1,000, maximum of ZAR 10,000, first loan maximum of ZAR 5,000, monthly installments to be no more than 30 per cent of monthly income and minimum repayment schedule of 3 months, maximum of 24 months. Clients are encouraged to repay their loans through bank deposits, although approximately 40 per cent of repayments continue to be cash collections by loans officers. The maximum loan term is 24 months, with most clients choosing to repay over 12–18 months. Shorter loan terms and smaller amounts is reported to give KUYASA poor urban households a greater degree of flexibility in terms of managing their finances and incrementally building in phases that are suited to their own economic and household cycles, Kuyasa Fund, (2011). These terms could be ideal for the needs of Kenyan poor urban households.

The key to Kuyasa’s success is the role played by the organization’s loans officers and innovation in use of information technology (Kihato, 2013). With an average loan portfolio of some 200 clients, each loans officer is responsible for a geographical area within which they market and service loans. The personal relationships developed between the loans officers and their clients are fundamental to ensuring the good repayment rates that Kuyasa enjoys. The presence of a loans officer acts as a positive reinforcement to pay (a simple cash payment rather than a bank transfer and its associated costs) but can also encourage defaulting clients to repay as there is a strong sense of shame associated with having repeated visits from Kuyasa staff. This
peer pressure often acts as an impetus to catch up on late payments, and the mode of repayment could be emulated by Kenyan service providers.

It is noted in the Kuyasa Fund Annual Report (2011), that the model pursues technological innovations as a key to improving loans officers’ efficiencies. For instance, the use of mobile technology that enables staff to reduce loan application time, and the need for clients to visit the Kuyasa offices. By using personal digital assistants and mobile printers, loans officers were reported to be able to complete application forms, take payments and print receipts, carry out credit bureau checks and document building progress while in the field. Live linkage to the Kuyasa database is reported by Kuyasa (2011) to reduce the opportunity for fraud, as repayments are recorded instantly. As the time taken to service clients is reduced, loans officer portfolios can be increased without compromising the quality of interaction with clients.

Fifty per cent of clients earn less than US$ 1.50 a day and 85 per cent less than US$ 2.80 according to Kuyasa (2011). This focus on the bottom end of the market is in line with Kuyasa’s social agenda to use microcredit as a development tool to improve quality of life as well as create economic assets. Gender is an important consideration in Kuyasa loans. A focus on women has shown them to deliver a more equitable distribution of benefits from interventions at the household level. Within microfinance, women are considered to present a lower risk for a variety of reasons, including greater susceptibility to repayment pressures and greater personal concern with household well-being (Mills, 2007).

Kuyasa is an effective mechanism for housing delivery, taking grant funding and translating it into the maximum possible increase in space. The Model has successfully leveraged funding to greater effect than in the case of grants given directly to households.

**Challenges and conclusion of the Kuyasa Model**

Kuyasa continue to rely on donor funding to cover operational and branch set-up costs until full sustainability is reached (Kihato 2013). Securing funding remains a challenge in the medium term to drive greater operational and fixed cost efficiencies, through the uptake of technology,
the design and implementation of an internal credit-scoring mechanism to simplify decision making. The other challenge is the consolidation of administrative and managerial functions at head office supporting the regional branch structures through doubling the size of loan officers’ portfolios and sourcing commercial finance to fund the loan book, particularly when seeking to source this funding from South African banks in order to draw them into financing the under-banked population.

Kuyasa’s strategy has developed suitable methodology, products and institutional capacity required to service the low-income credit market and then to drive the volumes necessary to serve its cost effectively (Mills, 2007). Expansion over the medium term is aimed at seeing Kuyasa reach financial sustainability. It also shows that microcredit can provide a viable alternative method of financing housing in a way that meets the social and financial needs of the urban poor.

Kuyasa has demonstrated that it is possible to develop a successful model for delivering credit to the unbanked and under banked by processing on demand led credit and creating a methodology for lending that meets the requirements of the low-income population. This is not limited to an appropriate product (in terms of loan size and loan length), but includes rethinking the traditional branch banking model by emphasizing the development of a mobile loans officer system. It also emphasizes the relationships between clients and loans officers who are from the same communities, and incorporating existing informal financial systems (ROSCAs) into the model.

According to Kuyasa Funds (2011), at the time, Kuyasa’s loan book was fully sustainable and the fund met 65 per cent of operational costs in the year 2006, with donor funding covering the shortfall. The five-year expansion plan to reach some 500,000 clients by 2012, thereby reaching full sustainability within the period with increase in interest rates from the current 38 per cent to 40 per cent; write-offs decreased to between 5 and 9 per cent; and loan portfolio quality reinforced by raising the maximum first loan size for applicants, where appropriate.
2.8 Kenya’s Housing Finance in Perspective

In the years immediately preceding independence in 1963, the housing finance sector was marked by instability as a result of political uncertainty. During the period, Housing Finance Institutions (HFI) deposits plunged from Kshs 208 million in 1959 to Kshs 90 million in 1962. However, this period soon gave way to a phase of consolidation and the mortgage industry expanded substantially from 1964 onwards. The principal HFIs were the Housing Finance Company of Kenya (HFCK), Kenya Building Society (KBS), and Savings and Loan (S&L). HFCK was incorporated in 1965 as a joint venture between Government and the Commonwealth Development Corporation (of the United Kingdom), taking over the assets of First Permanent of East Africa and those of KBS (Mutero, 2007).

Starting in the mid-1980s the mortgage industry witnessed major changes and upheavals. By 1986, the number of HFIs had grown to about 36, comprising four limited liability companies and 32 building societies but only 15 of the latter were active. Gardner et al. (1986) have advanced two reasons for this growth. The first is that the coffee price boom of 1976-77 provided the financial impetus for the rapid increase in the number of such institutions. Secondly, licensing of financial institutions under the Banking Act was tightened in 1985 following the collapse of a financial company Rural and Urban Credit Finance Company (RUCFC) as a result of political influence and poor management of the financial institutions.

According to Central Bank of Kenya (2012), currently, Kenya’s financial sector is highly developed, comprising a strong commercial banking sector, non-bank financial institutions, microfinance institutions and building societies, all regulated by the Central Bank of Kenya. Savings and credit cooperatives are regulated by the Commissioner of Cooperatives. Some 43 commercial banks and one mortgage finance company are registered with the Central Bank. In terms of real estate finance, a total of 33 financial institutions offer mortgage finance, which comprises 22.6% of total credit to the private sector. Credit to building and construction comprised 13.4% of total credit.

Kenya has a dynamic mortgage industry, which is growing rapidly and becoming increasingly competitive (World Bank, 2013). While all banks offer mortgages to their staff, only 30 offered
mortgage loans to customers. About 71% of mortgage lending is offered by five institutions: Kenya Commercial Bank (KCB), Housing Finance, Standard Chartered Bank, CFC Stanbic Ltd and the Cooperative Bank of Kenya. KCB is the market leader with about 30% of the market share, followed by Housing Finance, which held 19% of the market share in 2012 and issued a total of 5,235 mortgages in that year (Central Bank of Kenya 2013). As at 31 December 2012, the total mortgage book was reported to be KSh122.2 billion (about US$1.4 billion) – showing growth of 35.2% on the previous year. This represented 19,177 mortgage loans, up from 16,029 the previous year, which is an increase of about 19% and suggests a greater growth in loan size. Indeed, the average mortgage loan size increased to KSh6.4 million (US$73,143) in December 2012, up from KSh5.6 million (US$64,000) in the previous year. The Central Bank suggests that this may be partly attributed to an increase in property prices. Nevertheless, it’s reported that whereas general non-performing loans for banks fell, non-performing loans on mortgage lending doubled in value in the year from December 2011 to December 2012, from KSh3.6 billion (US$41 million), comprising 764 accounts, to KSh6.9 billion (US$78.86 million) over 969 accounts.

Ndungu’u (2011), Mutero (2007), and Central Bank of Kenya (2012), unanimously agree that mortgage lending is still accessible to only a tiny minority of the population – mortgage lending as a percentage of GDP stood at 3.7% in December 2012 (Central Bank of Kenya, 2012). New entrants and aggressive marketing has resulted in some newer products. For example, fixed rate mortgages have been made available for between 10-year and 20-year terms. Some banks have recently introduced 100% financing for the full value of a house. One lender has also introduced mortgage insurance against the risk of a loss of income, and another has introduced a rent-to-buy arrangement for those not able to access mortgage finance (Ndungu’u, 2011). The Retirement Benefits Authority in 2009 allowed that pension contributions of up to 60% could be used to secure a mortgage. This has the potential to leverage assets worth Ksh290 billion (US$3.625 billion) and increase access for lower earning people who have accumulated substantial pensions. In 2013, mortgage financier Housing Finance (HF) introduced a pension-backed loan product, but only 11 loans have been extended so far. Housing Finance is also exploring collateral risk insurance, green building finance and housing microfinance (Central Bank of Kenya, 2013) and (Walley, 2011).
A Central Bank survey asked mortgage lenders to rank the obstacles to market growth. The primary obstacle raised by 34 lenders was access to long-term funds. Facing this challenge head-on, Housing Finance raised KSh5.2 billion (US$61.07 million) on the sale of a second tranche of a seven-year bond to fund its expansion. Other constraints highlighted by mortgage lenders included high interest rates (31 citations), low borrower incomes (29 citations), credit risk (28 citations), and lack of financial literacy with respect to mortgage lending (27 citations). Financial regulatory burdens, the risk of foreclosure and difficulties with land titling received 19, 17 and 15 citations respectively, while lack of new housing supply was mentioned by 18 lenders. Lack of capacity and skills in the banking sector to develop products and underwrite effectively was mentioned by 14 lenders, and only 10 lenders suggested that HIV/AIDS was an inhibitor to long-term lending (Central Bank of Kenya, 2013).

Kenya has a strong microfinance sector, with eight deposit taking microfinance institutions. In 2013, 41 MFIs reported to the Mix Market (an online source of microfinance performance data and analysis), representing 1.4 million active borrowers and a gross loan portfolio of US$4.2 billion. The sector also recorded 8.7 million depositors and US$2.5 billion in deposits. Within this, Kenya also has an emerging housing microfinance sector. A number of MFIs, such as Jamii Bora Bank (with US$9.5 million in loans) and Makao Mashinani (with US$412 335 in loans) explicitly offer housing microfinance (World Bank, 2013). Rooftops Canada, together with Homeless International, the Cooperative Housing Federation of Norway, We Effect and other partners, are involved in a programme with the National Cooperative Housing Union (NACHU) to provide technical and financial support to scale up NACHU’s housing microfinance and housing support services. A crucial component of this work, according to World Bank (2013), involves identifying appropriate and sustainable finance for NACHU to be able to extend housing credit to its members.

In 2012, the World Bank launched the Global Financial Inclusion Database (Global Findex) to explore levels of financial inclusion around the world. According to Global Findex, 37.9% of rural and 76% of urban Kenyans over 15 years of age have an account with a formal financial institution. Use of credit is fairly common: 66.3% of adults over 25 years of age report that they
had a loan in the year 2011. Surprisingly, given the level of financial inclusion, only 0.9% of Kenyans have an outstanding loan to purchase a home. At 3.6% of Kenyans, loans for home construction are more prevalent. While in 2010, a credit information sharing mechanism was introduced, improving Kenya’s credit information framework.

Housing is recognised as a basic right in the Kenyan Constitution (2010). The Kenyan Constitution (2010) envisages the introduction of Housing Bill to see the creation of the Kenya Housing Authority with mandate to monitor and evaluate the housing sector, conduct research on housing and also drive certain aspects of social housing in Kenya as per the Constitution of Kenya (2010). Through the Housing Bill, the Government is to allocate 5% of the annual budget to housing and infrastructure development while National Housing Development Fund will be created with an allocation of about Ksh10 billion (US$114 million) annually. It will provide for a Guaranteed Mortgage Scheme that will protect lenders against risks in housing and make lending more attractive. The Bill will also recognise the new building technologies which are cheaper and more affordable to a larger proportion of the population. In addition, amendments to the Banking Act have allowed mortgage finance companies to operate current accounts as a way of attracting low cost consumer deposits to expand their lending capacity. As a result of this intervention, Housing Finance Kenya launched its current account offering in March 2012.

2.9 Influence of Formal Policy and Institutional Framework in Housing Finance for Urban Poor in Kenya

Policy debates regarding the enabling environment for microenterprise finance tend to center on national financial services, legislation and regulation. Issues such as acceptable ownership structures, institutional soundness and sustainability, depositor protection, minimum capital requirements, degrees of permitted intermediation, and usury laws, are seen as the primary policy levers available to governments to influence and control the development of the sector (Hannig and Katimbo-Mugwanya, 2000).

These issues include factors that affect poor households’ ability to acquire land, obtain legal rights to that land, and build a home upon it. The issues are broadly categorized as follows:
• Housing and property issues, which deals with the set of laws, regulations, processes and institutions that define whether and how poor households can acquire land and build a house upon it;
• Household issues that encompass the income levels of poor households relative to the cost of housing and households’ ability to finance the necessary steps in acquiring land and building a house;
• The laws and regulations that define the activities of financial service providers, the number of providers that serve the poor and the appropriateness of the housing finance products relative to the needs and means of the poor.

In Kenya, there are funds for shelter which are community-based. The UN-Habitat report (2005), McLeod (2002a and 2002b, 2005) and Hughes and Masimba (2004) describe what are characterized as ‘community-based’ shelter funds or ‘community-led infrastructure finance facilities, as funds that offer small loans to households, but route them through community-based structures. The use of a collective group loan is meant to support investments in land and infrastructure by a group of individuals, as it would be nearly impossible to do this on an individual basis. Members of the group are expected to work together, which gives the shelter project a stronger chance of success. Moreover, the fact that the loans are routed through the group means that households with very low incomes may participate in, since, possessing some form of asset-backed collateral is not a prerequisite for accessing a loan. According to Hughes and Masimba (2004), the distinction between housing microfinance and community-based shelter funds is not clear-cut, as the differences are often in minor gradations. In essence, community funds as revealed in the study seek to address the needs of poorer groups. Collective loans are used both to build the capacity of the poor to act together and to access secure tenure and infrastructure, which would be difficult, if not impossible to do individually.

2.9.1 The Legal Institutions That Influence Micro-finance for Housing in Kenya

Kenya’s financial market is well regulated and leads the rest of the region in terms of its banking infrastructure, growth and depth of the capital market and financial legislation (Alder & Mutero, 2007). Financial institutions are regulated by the Central Bank which is the licensing and
supervising authority. However, the building societies are regulated by the Registrar of Building Societies through the Building Societies Act.

Legislation Governing Micro-Finance and their Effects

Various legislations that govern microfinance have been heavily enacted in Kenya and a critical drawback for microfinance is the fragmentation of legislation governing the environment under which the institution operates.

The Central Bank of Kenya Act, Cap 491 Revised Edition 2012(2010), regulate financial institutions, including mortgage institutions; the Microfinance Act, for the microfinance business, the Building Societies Act, and the Cooperative Act, for Savings and Credit Cooperations (SACCOs). Some of the negative effects of the fragmentations of legislations governing deposit taking institutions are briefly discussed in the following paragraphs.

The Central Bank of Kenya Act, Cap 491 Revised Edition 2012(2010) under section 8 gives the Central Bank of Kenya powers to control what would be available in terms of money for loans and sets the reserves at not less than seven and half percent of total deposit liabilities as the reserves, currently this has been revised upwards to Ksh 5billion. The Act, therefore, minimizes the amount of loans and advances that the commercial banks have at their disposal at any given time by dictating levels of capitalization and regulating types of lending as mortgages, development loans, general loans etc.

On the other hand, the Microfinance Act Cap 493D Revised Edition 2012(2006) provides for the licensing regulations and supervision of the microfinance business. The Act distinguishes between deposit-taking and non-deposit taking microfinance business. It sets out the conditions for licensing and describes at length the governance framework for microfinance institutions, as well as how they are carried out under section 8. The Act restricts those who can conduct microfinance business and sets out criteria that reduce the number of those who are legible to provide the type of business. This duplicates the functions of Banking Act Cap 488. Under section 16 (i) Cap 589, it limits the flow of credit facilities to only those with regular and permanent incomes which is not the case with most of the low income households.
The Co-operative Societies Acts Cap 490 revised edition 2012 (1989), on the other hand, regulates co-operatives both at primary and secondary levels. It sets out the conditions and rules, that a cooperative union or an apex society shall not be registered except with limited liability. It prohibits a person to be a member of more than one society with similar objectives or more than one cooperative society having the same or similar objectives. This adversely affects the avenues where the individual/beneficiary can source their funding. The Act also controls free flow of funds by controlling membership and amalgamation of society and lending to non-members thus prohibiting non-members from receiving funding which they would have otherwise qualified for, unless prescribed in it’s by laws. In addition, the Act controls where the funds can be invested or deposited even though other investment avenues may be more lucrative than the ones prescribed. Hence limiting the investment opportunities available for the co-operative society and thereby restricting their sources of income and finance available to borrowers.

The Building Societies Act Cap 489 revised edition 2012(2005) is aimed at regulating the building societies. However, the Supervision of the housing finance institutions appears to have been given a lower priority than that of commercial banks, ostensibly because the latter one is considered more strategic. Secondly, the Registrar of Building societies is reported to be short of qualified staff (Mutero, 2007). There also exist ambiguity as to how responsibility of building society supervision is being shared between the Central Bank of Kenya and the Registrar of Building Societies. The Act prohibits any building society from making any advances in excess of an amount which may be prescribed without consent in writing by the Registrar and any loan facilities to its members unless the security provided is a class specified under its schedule. This impact negatively on low-income households who may not necessarily have the relevant specified security. It also prescribes how the building society operates and where they can invest and deposit their money. Cash deposits or investments to hold as security, thus limiting the all needed flexibility in portfolio balance.
Summary of the Legal challenges to housing finance provision for the urban poor households in Kenya

The existing financial services legislations and regulations in Kenya, albeit intended to ensure financial discipline, seem to impose an unnecessarily strict system, specifying which institutions can provide which type of products to which type of customers. This is due to a limited view of how residential housing acquisition occur especially to the urban poor in Kenya. It assumes two primary means of housing acquisition that developers acquire tracts of land, build houses, and then sell completed houses to individual buyers; or individuals acquire their own plot of land and build complete homes on that land before occupying the house.

Financial services and legislations are thus designed only to support these two kinds of housing acquisition. They are permitted by legal institutions to lend to developers over a short period of time to allow them to get through the construction phase. Mortgage companies and building societies are on the other hand, permitted to provide long-term mortgage loans to individuals to purchase complete units from developers, or less commonly, to build their own complete units as opposed to lending for incremental home development.

Three Acts of Parliament therefore stand out to negatively regulate financial service provision: the Banking Act, the Building Societies Act, and Central Bank of Kenya Act. The goal of these laws is to create a framework for a healthy, competitive system with sufficient consumer protection. In practice, however, the net effect has been to reduce the number of providers and the ability of those who remain to adapt their products and services to the changing market.

The framework that the laws establish is surely removed from reality. The reality is that poor households most often acquire land without title through squatting, inheritance, or subdivision, and progressively build structures and add services as they acquire sufficient capital. Such variations and improvisation actually require corresponding innovation in housing-finance products. However, such changes are only possible with flexible legislation and regulations—that do not rigidly define who lends to whom on what terms and conditions. The problem with such regulations is that they have reduced access to financial services, rather than protecting the interests of the public. The banks’ response to the Donde Bill is a classic example of a well-
intentioned legislation that was too specific, causing a contraction rather than an improvement in the financial services market.

Similarly, the experience of East Africa Building Society (EABS), (now defunct) demonstrated what can happen when institutions have the flexibility (or take the initiative) to design their products according to market needs. When EABS followed the strict rules and regulations established for it by the Government, it was on the verge of bankruptcy. By modifying its services to meet market demand while still managing its business prudently, EABS became one of the most financially sound housing finance service providers in the country at that time, and was able to provide services to a previously unattended to or under-attended population (Mutero, 2007). Just as early micro-enterprise institutions broke traditional paradigms and designed innovative products to prove that micro-enterprise lending is sustainable, financial service providers interested in tapping into the substantial demand for housing microfinance in Kenya need to redesign traditional housing lending products to recognize how poor families build and the guarantees that they have available.

2.9.2 Role of Governments in Promoting Institutional Framework for Housing Microfinance

From the literature reviewed on housing interventions for the urban poor in Africa, housing microfinance in African countries, such as Ghana, Tanzania, Malawi, Botswana and Uganda, governments have relied on state-owned banks to extend rural credit and microfinance services. In most cases, it has been noted that the banks have incurred huge losses and have had to be restructured, recapitalized, privatized or liquidated. Currently, the trend is for governments to provide a regulatory and supervisory framework that can support MFIs.

Daphnis and Ferguson (eds), (2004), state that inappropriate legal and regulatory structure is a problem for many MFIs. Lenders need to balance factors such as the cost of capital requirements, the desirability of taking on deposit-taking authority, the degree of formality of the structure, and ability to maintain relations with the community. Regulators, on the other hand, need to be realistic as to how much supervision and prudential regulation they are able to provide. Daphnis and Ferguson (eds), (2004) contends that an examination of the regulatory
systems of MFIs in the case study countries reveal that they have evolved through a cycle of easy entry, weak performance over time and finally, a need to tighten up the regulatory environment. Hence, in developing the licensing and regulatory frameworks in Kenya an attempt must be made to ensure that they are conducive to the development of the sector rather than detrimental to the institutions they are being imposed on.

It is clear that as financial institutions mature, their institutional and skills requirements (e.g., carrying out outreach, organizing savings associations, training new borrowers and servicing loans) may not be sufficient to meet the requirements necessary to carry out more formalized lending. More formalized lending, and longer term housing lending, will require skills that can address sustainability issues, for instance, the need to access longer-term funding and be able to balance this with the need to cover costs as pointed out, (Daphnis and Ferguson (eds), 2004).

Housing challenges gravitate around how urban poor households are able to acquire land and build upon it. This is in terms of the physical availability of land and the process for acquiring it, the level of security households can establish on land they have acquired, the codes and regulations that affect what and how poor households can build on their land, and the degree to which all of the above processes become politicized. The literature reviewed makes it clear that poor Kenyans have a strong desire to own their own home. However, less than 20 percent of urban poor families have achieved this goal Mary (2007). This contrasts strongly with other experiences in many other developing countries, particularly in Latin America, where often more than 80 percent of the urban poor own their own homes.

Poor households’ desire to acquire land is frustrated by high land costs, and/or a cumbersome and expensive process. There is strong evidence that multiple factors combine to make it very difficult for poor urban Kenyan households to obtain a basic plot of land either through purchase, grant, or squatting. For land purchase to be viable for poor households, the physical space needs to be available in plots of a reasonable size at an affordable price, serviced and in a location that allows them to continue to earn their livelihood (Mary,2007).
According to UN Habitat (2005) Report on Nairobi residential land, 80 percent of is occupied by only 20 percent of the population, indicating that there is limited land available for the poor majority (Mary, 2007). The land that is available is relatively expensive. A quarter-acre plot of land within Nairobi city limits sells for $6,300 or more, which is out of reach for most poor households.

In most developing countries, including Kenya, urban poor households’ final recourse for acquiring land is reported to be by squatting which is often seen as an effective means for poor households to acquire land. However, in many cases, the local Chiefs in urban areas illegally allocate land-usage rights. In exchange for these “rights,” the Chiefs receive bribes or favors. Given the substantial income generated by these “usage fees”, the Chiefs have a strong incentive to continue this practice and limit squatting to those who can pay (Gulyani et al, 2006). Even if households are able to access financing, high land prices and the high cost of installing basic services make most potential plots unaffordable. These factors combine to limit the potential demand for housing microfinance.

The degree of confidence one has in their rights of ownership over a piece of property and their ability to enforce those rights. Households that have land security are more likely to take on debt to improve the value of their property. Land security also affects the supply of credit. Credit institutions need to be confident that a borrower has formal, recognized rights to a property and will not be evicted, abandon the property or default on the loan. Two factors tend to influence a landowner’s level of land security, the legal rights the household has over the land, and how these rights are enforced. In Kenya, as in other developing countries, land security is determined by the legal documentation that a land-owner possesses (Mutero, 2006). The least secure is a sales agreement and the most secure is a freehold title, followed by a leasehold title. In urban areas however, residents with forms of legal documentation, such as letters of allotment, are reluctant to invest in their properties due to fear of demolition or eviction that would lead to loss of their investments.
Housing-finance institutions in Kenya, including those that reach poorer households, require borrowers to have full title. In theory, this is to reduce the borrower’s incentive to default and provide a tangible asset for the lending institution to recover losses. The experience in Kenya suggests, however, that mortgage guarantees do not provide either of these benefits. With mortgage interest rates at around 20 percent and even higher rates on overdue balances, borrowers who fall behind on their loans face debts beyond the value of their home and beyond their capacity to pay (Walley, 2011). In these cases, defaulting and giving up one’s home can be preferred to making high monthly repayments on a growing debt. In addition, the length of time and cost associated with placing a lien on a title and, in the case of default, foreclosing may exceed the invested capital, particularly on smaller loans. In the end, a mortgage guarantee can cost a lender more to foreclose than it would receive from the sale of the property.

In sum, land security is critical to the enabling environment for housing microfinance, and affects both demand and supply. Particularly important are available forms of tenure and how these are enforced and accepted by financial services providers. In Kenya, few poor households have sufficient land security to give them adequate confidence to borrow and invest in building a permanent home. The potential market is further limited by unwillingness of lenders to consider accepting anything less than formal title as a guarantee, despite evidence suggesting that slow foreclosure processes and slumping resale markets for foreclosed homes limit the true value of a mortgage in terms of recovering capital in the event of a default (World Bank, 2013).

2.11. Building Codes as a Challenge for Obtaining Affordable Housing to the Urban Poor Households in Kenya

Issues relating to land availability and land security limit poor households’ demand for and access to housing finance. However, even if these issues are resolved, building codes and standards posed additional obstacles to accessing housing finance for incremental home acquisition. Legal statutes, by-laws, and building codes combine to regulate the quality and construction of homes in Kenya and hinders progressive building by urban households (Mutero at all, 2006).
The Kenya’s building code of 1958 is based on the historical English system, which does not consider the local reality, relying predominantly on expensive and/or imported materials and European-design standards (including roofs that can withstand minimum “snow loads”). To achieve the minimum housing standard, a house must be built out of stone and consist of at least two bedrooms, each measuring a minimum 7 square meters with a separate cooking area, including flue ventilation. The minimum acceptable house according to the “code” is well beyond the means of poor and, even many middle-income families. Although some households do achieve the ideal construction described in the building codes over time, they have to do so by building illegally (incrementally) over the course of many years.

The building code therefore creates the risk that households will lose their home unless they build to code, thereby reducing their willingness to invest in more permanent structures—and ultimately, reducing the demand for housing finance and secondly, it does not allow families to build progressively towards the desired standards, thereby, reducing the types of constructions that potential housing lenders can finance.

While the Government has not uniformly enforced the building code laws, cases have been reported of houses being demolished for not being built to code. This threat further magnifies the obstacle created by inappropriate building codes. On the other hand, if potential borrowers and lenders were convinced that the building codes were unlikely to be enforced, then they might be more willing to borrow and lend. Practical Action formerly known as Intermediate Technology Development Group (ITDG) has led an effort in Kenya to modify the building codes to reflect local building practices while encouraging safe and secure building practices. Code 95, permits building practices commonly used by poor households, including the use of alternative building technologies, outdoor cooking areas, and pit latrines. Despite this, Code 95 has not been widely adopted. It has to be approved by each local authority or county before it takes effect. To date, only Nairobi City County and Nakuru County have implemented Code 95, and even then, only in limited areas.

2.12 Conceptual Framework of the Study
The study sets out the current state of NCHF in Nairobi, Kenya, highlighting institutions and actors, and including progress around the development and growth of retail products. It examines
initiatives to create capacity to develop such products as well as developments in the regulatory and policy environment surrounding HCHF lending with a view to offer some important messages going forward.

Housing finance for the low-income urban group is seen as a concept that requires affirmative action from governments. However in situations where housing sector is exclusively subjected to market forces, very little may be yielded by the government especially in a capitalistic economic environment like Kenya. To cushion themselves against these forces so as to access ‘reasonable housing’, from literature reviewed, the poor organize themselves in self-help groups. This has a high potential of enhancing the scale and effectiveness of community initiatives for housing purposes as seen in the Kuyasa case and which could introduce numerous benefits to the general community. For instance, improved housing standard for the low in-come households; improved housing conditions in terms of materials used in construction, size of rooms and quality of work done. Participation by the group members in the entire process is also enhanced from planning, implementation and management of housing projects. This strengthens land ownership rights through group acquisition of land ownership documents and provision of physical infrastructure to the community leading to increased collaboration between the group members and other institutions.

The groups are able to seek collaboration with government institutions, national as well as international agencies, as a way of expanding their resource bases and technical cooperation aimed at infecting an array of skills into the members activities and boosting the level of social cohesion within the group members. This is essential for consensus building and mobilization of funds.

The study, therefore, adopts a conceptual model that revolves around community activities aimed at provision of housing finance for low income urban households and which depends to a great extent on the spirit of self-help with specific emphasis on community participation, mobilization of resources, that guarantee proper fund management, promotion of dialogue and consensus building on community needs and the concept of reliability. The concept recognizes institutional development and the need to leverage resources from outside the community, for instance, the
central and local governments, and also national and international organizations, as significant tenets of self-help.

The conceptual model benchmarked by the study appreciates the existing formal financial institutions in Kenya in as much as it does to the economic realities facing housing finance for the urban poor. At the same time it examines the existing chain of financial delivery to the urban poor through various organizations like banks, NGOs and others. *(See the model on Chart 2.1)*

**Chart 2.1: The Existing Structure of Kenya’s Housing Finance for the Poor**

*Source: Author, 2015*
For analysis of the findings, the study adopted the conceptual model (Chart 2.2) below taking the benchmark of South Africa’s Kuyasa model.

**Chart 2.2: Study’s Analytical Conceptual Framework**

```
SERVICE PROVIDERS
-Non-conventional housing finance providers e.g. NACHU, Pamoja Trust and Cooperatives

NON-CONVENTIONAL HOUSING FINANCE MODEL
- Sustainability of housing and infrastructure

GOVERNMENT
- Provision of condusive legal and institutional environment

SAFE GUARDED RISKS IN INVESTMENT
- Service providers

BENEFICIARY SATISFACTION
Improved Security
```

*Source: Author, 2015*

The conceptual framework is also strengthened and backed by the best international practices as amplified by the requirements by CLIFF and Homeland International and other International organisations such as Rooftops Canada among other social cooperative housing fund providers.
The study envisages a model with secure loans and better group culture which would help to minimize risks for the service providers and encourage savings by beneficiaries propelled by monthly or weekly meetings by the groups. The policies and legislations should allow individuals to save with different groups for different uses or for specific services with strict regulations enforcement as in the formal financial institutions. Service providers should make regular contacts and support saving groups by recording clients savings and use the groups for marketing. While, the beneficiaries need to have long term or long standing social and financial networks and training on skills for good governance and savings by the service providers.

The service providers must ensure beneficiary strong familiarity within the saving groups. The members as a condition, need to save for at least 6 months before qualifying to borrow. This would show proof of ability to save, manage finances and secure relationship with group members. These qualities can be harnessed by service providers to encourage repayment through peer pressure and create personal saving.

The model encourages the service providers to issue short term flexible loans and to retain savings within the control of savers with innovations for use of credit bureaus checks, for instance, repayments made to the banks or cash could be collected by loan officials from group members during the group meetings and sent to the service providers. The model should adopts use of real time online access to service provider database by loan officers and beneficiary group members. This would enhance timely access to repayment information, minimize any fraudulent practices and reduce time wastage by both the loan officers and group members, by eliminating need for frequent visit to services provider offices.
CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
This chapter presents the research methodology of the study. It describes and justifies the methods and processes used in data collection to answer research questions. The chapter is presented under the following sections namely: research design, population, sample size, sampling procedures, data collection instruments and data analysis.

3.2 Design
The study takes an exploratory design. Exploratory researches, the nature of the research problem is made clearer and would prompt further study where necessary to give conclusive evidence for the study (Zikmund, 1997). Exploratory research, therefore, helps to crystallize a problem and identify information needs for future research. Major emphasis of the design is on discovery of ideas and insight and must be flexible enough to permit the consideration of many different aspects of a phenomenon (Kotheri and Garg, 2014). According to Robinson (2002), this kind of research is the means of seeking new insights, asking questions and assessing phenomenon in a new light. It allows the researcher to familiarize himself/herself with the problem or concept to be studied, and potentially generate hypotheses or research propositions to be tested. According to Zikmund (2003), the output is qualitative and may serve as a basis for subsequent quantitative research.

The study carried out an evaluation of the existing typologies of NCHF as provided by the different organizations, obtained from the Ministry of Co-operatives Development register of societies that deal with housing finance as the ‘sample frame’ or source ‘list’. The study called these organizations the Providers. In the study area (i.e. Nairobi), there are four organizations that were found to be registered and invest or have invested in NCHF. These include NACHU, Pamoja Trust through their Akiba Mashinani Trust (AMT), Jamii Bora and K-Rep Development
Agency (KDA) through their Kenya Affordable Shelter Project (KASP). These organizations were found to be involved or have been involved in provision of housing finance for the urban poor in Nairobi through various registered housing societies registered with them as presented in Table 3.1.

Table 3.1: Housing Societies/ Groups applying NCHF Models

<table>
<thead>
<tr>
<th>NCHF Provider</th>
<th>Number of Housing societies/ Groups</th>
<th>Housing Societies/ Groups dealt with in Nairobi</th>
</tr>
</thead>
<tbody>
<tr>
<td>NACHU</td>
<td>11</td>
<td>Bellevue Housing, Embakasi Housing, Huruma Estate Housing, Jasho Housing, Kariobangi Housing, Leo Housing, Marura Housing, Rehema Housing, Soweto Housing, Tangaza Housing and Tujenge Makao Housing</td>
</tr>
<tr>
<td>Jamii Bora</td>
<td>1</td>
<td>Kiambiu (and Kisaju)</td>
</tr>
<tr>
<td>Pamoja Trust</td>
<td>2</td>
<td>Huruma and Dagoretti</td>
</tr>
<tr>
<td>K-Rep</td>
<td>1</td>
<td>Kawangware (wound-up). K-Rep is yet to re-launch the product</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, 2015

Various models of NCHF were established. The study referred to these models as, Product Types.

3.3 Sampling Method

The sample unit of the study is the low-income urban households in Nairobi financed by the four service providers namely; NACHU, Jamii Bora, Akiba Mashinani Trust through AMT and K-Rep Bank. While the sampling frame is based on Ministry of Cooperative Societies register for registered housing societies.

The study obtained both qualitative and quantitative data. The analysis was undertaken in two broad categories: data in objectives 1 and 2 was analyzed scientifically without the use of numerical data, by carefully and logically analyzing responses and reporting those responses that
are inconsistent as well as those that disagree; For quantitative data, the researcher adopted numerical data analysis method i.e. by use of numbered data and probability method.

The sample frame and determination is explained below.

**Chart 3.1: Conceptual Sampling Framework**

![Chart 3.1: Conceptual Sampling Framework](image)

*Source: Author, 2015*

As presented in chart 3.1 above, sampling approach depends on the objectives of the study being pursued at that particular moment.

**Objective 1 and 2**

In these two objectives: to evaluate different types of NCHF approaches for access of housing finance in Kenya by the urban poor; and the legal and institutional framework under which they operate, the study adopted the non-probability sampling methods (i.e. key informants) while for objective 3, the study used probability method.

*Stage one* involved the identification of the providers and review of the various government policy and legislative pronouncements which help in shaping the policy thinking behind the operations of the service providers. These policies and legislations influence loan provision and
accessibility, accessing commercial banks loans, managing the housing societies/groups and successful implementation of the models. *Stage two*, involved the case studies of the models identified in stage one.

**Objective 3**

*Stage three* looked at study objective 3. Out of the models identified, the study sought to establish the extent of beneficiary satisfaction with NCHF approaches identified in the study.

The study sample unit for the beneficiaries interviewed consisted of the 11 NCHF housing societies in Nairobi from NACHU, 1 housing group from Jamii Bora and 2 housing groups from Pamoja Trust.

Based on the pilot survey, each housing society has an average membership of 12, while groups working with NGOs have an average membership of 5. NACHU has four types of models while Jamii Bora and Pamoja Trust each have a model which from the initial analysis is similar to one another.

The study adopted 60% of each membership. This is a sufficient sample size for any scientific probabilistic research. Furthermore, Babbie (2007) suggested that any sample size of 50% can be reported, that over 60% is good, and that over 70% is excellent which was achieved by the survey as indicated by the sample size.

Therefore;

- 70% of 12 members is approximately 8.4 for each housing society. The researcher adopted 9 number of respondents for the 4 models. This is equal to 36 respondents for NACHU.
- 70% of 5 members is approximately 3.5 per housing society for the NGO’s models. The study adopted 4 number of respondents per model. 4 number of respondents by the 3 types of model. This is equal to 12 respondents for Pamoja Trust and Jamii Bora.

The study with particular reference to objective 3, sampled 48 respondents, 3 respondents more than the 70% mark.
### 3.4.1 Data

### 3.4.2 Data Needs

**Table 3.2: Data Needs Matrix**

<table>
<thead>
<tr>
<th>Research Questions</th>
<th>Objectives</th>
<th>Data Type</th>
<th>Data Collection Method</th>
<th>Units of Analysis</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the available types of models applied as Non-Conventional Housing Finance (NCHF) approaches for urban low-income households in Kenya?</td>
<td>To evaluate the different types of approaches for accessing housing finance by the urban poor households.</td>
<td>Secondary Data</td>
<td>Literature Review</td>
<td>Supporting Agencies Management, Access to Loans, Repayment Criterion and Conditions</td>
<td>Relevant Journals, Housing Finance Reports, Internet Sites</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Primary Data</td>
<td>Interviews; Questionnaires</td>
<td>Supporting Agencies Management, Access to Loans, Repayment Criterion and Conditions</td>
<td>NACHU, Pamoja Trust, Jamii Bora</td>
</tr>
<tr>
<td>Research Questions</td>
<td>Objectives</td>
<td>Data Type</td>
<td>Data Collection Method</td>
<td>Units of Analysis</td>
<td>Data Source</td>
</tr>
<tr>
<td>--------------------</td>
<td>-----------</td>
<td>-----------</td>
<td>------------------------</td>
<td>-------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>How conducive is the legal institutions and credit environment under which these NCHF institutions operate in Kenya?</td>
<td>To analyze and evaluate the institutional environments under which these lending institutions operate</td>
<td>Secondary Data</td>
<td>Literature Review</td>
<td>- General policy position (housing finance and societies’ regulation)</td>
<td>Relevant Journals, Housing Finance Reports, Internet Sites, Laws and Statutes.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Primary Data</td>
<td>Interview; Questionnaires</td>
<td>- General policy position (housing finance and societies’ regulation)</td>
<td>NACHU, Pamoja Trust, Jamii Bora, Ministry of Housing</td>
</tr>
</tbody>
</table>
### Research Questions

<table>
<thead>
<tr>
<th>Research Questions</th>
<th>Objectives</th>
<th>Data Type</th>
<th>Data Collection Method</th>
<th>Units of Analysis</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>To what extent are the low income urban households satisfied with the available NCHF approaches?</td>
<td>To determine the levels of beneficiary satisfaction with the available NCHF services</td>
<td>Primary Data</td>
<td>Interviews; Questionnaires and Observation</td>
<td>• Case studies</td>
<td>Housing Society / Groups Members (Individual) for NACHU and Pamoja Trust, AMT and Jamii Bora (Now a Bank)</td>
</tr>
<tr>
<td>What are the reasons behind these successes and failures?</td>
<td>To recommend on a pro-poor housing finance approaches that can be replicated elsewhere.</td>
<td>Primary Data</td>
<td>• Analysis of the preceding findings of the three objectives</td>
<td></td>
<td>Source: Author, 2015</td>
</tr>
</tbody>
</table>
3.5 Data Types

The study collected two types of data, primary and secondary data.

3.5.1 Secondary Data

This marked the beginning of the study. The researcher began by familiarizing himself with the broader field of housing micro-finance in the developing countries globally. This helped the researcher to understand the various ways by which the housing for the poor in urban areas is financed to meet this very important need. The researcher noted the handicaps that are there in so far as availability of finance for housing the urban poor, in selected countries all over the globe, with specific reference to Africa and less developed countries. But further, the researcher also noted the non-conventional approaches that are steadily coming up to fill in this void created by the formal institutional arrangements in so far as housing finance for the urban poor is concerned. The researcher henceforth called these housing microfinance (HMF) approaches – Non-Conventional Housing Finance (NCHF). Further reading was done so as to develop detailed and focused background information, which formed the basis of this study and further developing other appropriate tools for the survey and raw data capture. Literature was also reviewed and analysis of the same concerning the various Government policy and legislative pronouncements with regard to housing finance, the banking credit environment and the various Acts of Parliament that influence the overall Kenya’s financial sector.

3.5.2 Primary Data

After the preliminary secondary data collection, primary data collection was undertaken. Data was collected from loan providers from whom various types of the NCHF models/products being offered the urban poor were established. These revealed the key features of each model in terms of the factors like loan conditionalities (for both access and repayment schedules), the composition of the model packages in terms of land, infrastructure, professional or technical support, financial management among others. The providers also identified various policies in the country that impact on their operations in terms of loan provision, access to commercial bank loans, managing the housing societies/groups and successful implementation of the models. The
study identified cases based on the model used to finance them. This helped in establishing the level of beneficiary satisfaction.

3.6 Data Collection Tools
Secondary data was obtained from the literature reviewed from previous works published by various authors on the subject obtained from libraries, internet and relevant journals and magazines. While primary data was collected through field surveys, where interviews were conducted with the relevant respondents and questionnaires administered to the respondents, these were completed and collected by the researcher. See Appendix Section for primary data collection tools. The researcher also carried out own observations to complement the data obtained through the interviews and questionnaires.

3.7 Data Analysis
The data presentation and analysis was undertaken according to the research objectives with an aim to explain how lack of adequate and appropriate finance impact negatively on the supply of housing for the urban poor households.

In the study, the dependent variables is “inadequate housing supply to the urban poor household” while the independent variable is “the lack of suitable and adequate finance for housing development for the urban poor households in Nairobi, Kenya”.

Other independent variables analyzed in literature review include the fragmented legal statutes, poor regulatory environments and the role of state in housing provision. It is presumed that changes in availability of suitable housing finance negatively affect the housing supply to the urban poor households.

The data variables of analysis as captured in Table 3.2 included the following:

- The different kinds of supporting agencies,
- How they are managed,
- Access to Loans,
• Repayment criterion and conditions, general policy position (housing finance and societies’ regulation)
• Levels of satisfaction by the clients on the NCHF models

The software used to analyze primary quantitative data, customer satisfaction, (in objective iii) is Statistical Package for Social Sciences (SPSS). Data obtained through questionnaires from respondents was cleaned and verified before processing and outputs transferred to MS Excel and MS Word. The data obtained was hence reported using frequencies, graphs and charts in order to evaluate the effectiveness of the various NCHF approaches under review.

Qualitative data was analyzed using qualitative content analysis, sketches for stakeholders and institutional analysis in order to explore the pattern of relationships of the variables therein. The analysis made use of observations that go together and then subdividing that data into coherent categorical patterns and themes for interpretation.

The exercise also made use of triangulation in data collection to ascertain and clarify information coherence especially where data was obtained from various sources. Tranquilation method was used to minimize the degree of specificity of methods used in data collection, where more that one method of data collection was used to test the hypothesis and measure variables. Structured questionnaire was supplemented with in-depth interviews, field observations and literature review. If the findings yielded by the different data collection methods are consistent, the validity of those findings was increased. Tranquilation method has the benefit of raising social studies above the personal biases that stem from single methodology (Nachmias and Nachmias, 2004)
CHAPTER FOUR
DATA FINDINGS, PRESENTATION AND ANALYSIS

4.1 Introduction
This chapter deals with data presentation and analysis of the findings according to the specific study objectives and in responses to the research questions. The data presentation and analysis of the research findings on existing non-conventional approaches to housing finance for the urban poor households in Nairobi and its environs, Kenya, has been done in line with specific study objectives as follows:

i. To evaluate the different types of non-conventional approaches for accessing housing finance by the urban poor;

ii. To evaluate the effectiveness of legal and institutional frameworks under which NCHF lending institutions operate. This was also undertaken in chapter two by reviewing the laws and statutes that impact on housing finance provision;

iii. To establish the levels of satisfaction by low income urban households with available NCHF models.

4.2 Approaches used in Provision of NCHF for the urban poor households in Kenya
The study established that provision of NCHF is a new concept in Kenya. Agencies offering such services to the urban poor mostly work with persons living in the slums, landless and eviction victims. As discussed in Daphnis and Ferguson (eds) (2004), most organizations offering NCHF have adopted the linked-programmes modules. Linked-programmes rely on prior participation in micro enterprise or savings services, which are most often managed by groups of individuals.

Historically MFIs operating outside the formal banking sector in Kenya have looked to communities to mobilize funding by forming voluntary groups. These savings groups include village banks, cooperatives credit unions, savings and loans. Cooperatives and credit unions also provide credit to their members, including, in some cases, small loans for housing purposes, particularly if a potential borrower has access to land. Generally, these loans are only marginally
larger than the other loans on offer as the lenders have to manage quite carefully the relationship between their short-term and longer-term funds.

Microfinance loans for shelter purposes respond to the needs of the poor who have reasonably secure tenure to upgrade their dwellings using strategies based on micro-enterprise lending. In Kenya, agencies offering HMF, according to the Ministry of Cooperative Development register for housing societies, include National Co-operative Housing Union (NACHU) through Revolving Loan Fund, Pamoja Trust through Akiba Mashinani Trust (AMT), Jamii Bora and K-Rep Development Agency (KDA), through Kenya Affordable Shelter Project (KASP). KASP used to offer such services but temporarily pulled out. The study revealed that they are in the process of re-launching the product.

Jamii Bora (JB) initially a micro-finance institution but currently a fully-fledged bank, that lends to poor borrowers that have saved with the institution. It used a classic micro-finance procedure, with borrowers forming small groups so that loans are in part secured by peer pressure. It claims to have 140,000 members. JB is reported to have decided to develop a housing project for members and acquired 300 acres of land in Kisaju, Kajiado County. The plan was to construct 2,000 houses over 3 years at a cost of Ksh 900 million (USD 13.6 million). The units have 2 bedrooms, a sitting room and a kitchen. Members are expected to participate directly in the project by providing labour and building materials. The project is on course to success and cost of acquiring unit is relatively made lower by the concept adopted.

Started in 2001 in Nakuru, the Kenya Affordable Shelter Project (KASP) sought to develop sustainable mechanisms for integrating financial services and building technology to help the poor acquire affordable shelter for commercial or home ownership. The project was initiated through the collaboration of Intermediate Technology Development Group (ITDG), acting as a technical partner, and K-Rep Development Agency, the financier and owner of the project. It mainly targeted poor urban and rural communities with housing as a priority need. KASP offered group and individual loans. Collateral comprised of advanced savings, personal pledges and co-guarantees by group members. KASP model demonstrated that housing microfinance is feasible if well-managed, and just before it was wound up, it had 192 active loans with an expanded
programme in the pipeline. Loan diversion was cited as the main cause of defaulting in the early years, while stalled houses was a common problem mainly caused by under-funding and bred customer dissatisfaction causing defaulting and clients’ dropout. This was noted as the biggest threat to the project.

The lessons learned from of KASP are important because they shade light on the shortcomings of MFIs mismanagement. Jamii Bora and Pamoja Trust offer NCHF but were found to be at a relatively smaller scale compared to what NACHU does. Other conspicuous de-similarities are the organizational structures. NACHU operates as an Apex Co-operative Society, which according to The Co-operative Societies Act, apex society means a society formed at the national level by the co-operative movement in Kenya and registered under this Act to promote co-operative development and represent the interests of the co-operative societies locally and internationally. In this regards, these societies are housing societies. while Pamoja Trust through AMT and Jamii Bora, operate as Non-Governmental Organization (NGOs) and banks respectively. K-Rep Development Agency used to operate as a company, registered under the Companies Act Cap. 486 Revised Edition 2012(2010) of the Laws of the Republic of Kenya. Services of these organizations are directed towards the primary housing cooperative societies in both rural and urban areas to address their shelter needs. These include individual self-help groups, the SACCOS organization in both the private and public sectors, non-governmental organizations and community based organizations.

Based on the organizational structures (see charts 4.1 & 4.2 below), the study looked at what apex co-operative society (in this case being NACHU with varied products biased towards housing) does and what NGOs (in our case Pamoja Trust through their Akiba Mashinani Trust and Jamii Bora do). K-Rep could not be studied further since it is yet to re-launch the low-income housing product. These organizations with individuals falling within low to modest income brackets, those under eviction threats, lacking land, homeless, tenants, located in overcrowded neighborhoods with no infrastructure and with limited access to affordable finance for housing developments.
4.1 Management Structure for NCHF

Chart 4.1: Apex Co-operative NCHF Models trickle down to the urban poor

Source: Author, 2015

Chart 4.2: NGO NCHF Models trickle down to the urban poor

Source: Author, 2015
4.2.2 NACHU Projects and where they are Located

According to NACHU, apart from Nairobi, NACHU has branches in Lodwar, Moyale, Marsabit, Wajir, Garissa, Lamu, Meru, Eldoret, Kisumu, Nakuru, Highlands, Machakos, Malindi and Mombasa. NACHU has 250 housing cooperative society affiliate membership of 5 and above membership and over 200,000 individual members.

4.2.3 NACHU as an Appex Co-Operative Society

NACHU, an example of Appex Cooperative Society that offers finance for urban poor households, is a national organization registered in 1979 under the Co-operative Societies Act Cap 490, to address and coordinate shelter issues for trade union members. It was registered to assist primary housing co-operatives meet the member’s needs for shelter by way of providing several services.

NACHU currently has 212 primary cooperative housing societies as members, of which approximately 122 are active, i.e. they hold regular meetings, hold shares in NACHU and participate in NACHU activities, including attendance at the Annual General Meeting. Members are entitled to participate in the AGM, responsible for electing a Board that is composed of one member from each of Kenya’s seven Provinces. The Board then elects its Chairperson.

Table 4.1 NACHU general policies and procedures for housing project loans

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Applicable conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of loan (eg. Nyumba loans)</td>
<td>- New housing loans&lt;br&gt;- Rehabilitation loans&lt;br&gt;- Infrastructure loans for groups&lt;br&gt;- Resettlement loans&lt;br&gt;- Comprehensive loans - Group loans for commercial purposes such as constructing a building for commercial or residential rental.</td>
</tr>
<tr>
<td>Parameters</td>
<td>Applicable conditions</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Eligibility (Membership status, age, accounts held) | • Members are primarily housing co-operatives  
• Affiliated to NACHU for at least 6 months.  
• Registered with the Ministry of Cooperatives Development as housing cooperatives  
• Hold regular meetings.  
• Must conduct affairs as per the cooperative Society Act.  
• No individual membership is allowed.  
• Members must belong to housing cooperative.  
• Members must pay a non-refundable membership fee of Kshs. 2,500/=  
• Must have annual/general meetings.  
• Purchasing refundable shares worth USD 150  
• Resolution to borrow.  
• enhancement of value for existing developments exceeding 20 years  
• Satisfactory management and record keeping.  
• Member must have saved for six months to qualify for the loan  
• Adequate capability to administer loan fund.  
• Updated audited accounts.  
• Monthly meetings.  
• Must fill monitor forms and forward to NACHU.  
• over 18 years of age  
• Society must be fully paid up share contributions |
| Loan Security (Guarantee, property, cash)        | House; land; other assets; at least four guarantors                                                                                                                                                                     |
| Loan use (housing, startups)                    | • Utility enhancement/customization  
• construction of a single house  
• payments during the construction phase  
• construction loan shall be converted into a mortgage payable over a negotiated period  
• Property renovation  
• build a new house  
• rehabilitate an old one  
• install water and electricity  
• toilets (infrastructure)  
• buy land |
## Parameters

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Applicable conditions</th>
</tr>
</thead>
</table>
| Average loan amount/ loan size (maximum, minimum) | - New housing loan – maximum Kshs. 1,000,000  
- Rehabilitation loan – maximum Kshs. 200,000  
- Resettlement loan – Kshs. 60,000 per member  
- Infrastructure loan – Kshs. 60,000 per member  
- Comprehensive loan maximum Kshs. 10,000,000  |
| Grace period                                    | Maximum of six months after completion of construction. 6 months & 3 months  |
| Form of disbursements (cheques, cash, bank transaction, in hand) | Cheque or bank transactions  |
| Speed of disbursements (days, weeks)            | within a month  |
| Stages of disbursements and payment             | - The Shirika Nyumba MUST fill the monitoring forms and forward them to NACHU before 15\textsuperscript{th} of the month.  
- First disbursement of 50% is made upon fulfilling the terms and conditions  
- Second disbursement is made upon satisfactory utilization of first disbursement and project inspection.  |
| Form of repayments and collection (Cash, cheques, bank transfer) | Bank transaction  |
| Method of repayment and collection (personally at office, through collectors, direct band credit) | Societies are required to meet monthly, collect the loans and deposit in NACHU account then file monthly reports on the projects implementation progress with any difficulties encountered  |
| Repayment frequency (daily, weekly, biweekly, monthly, end-of-term) | monthly  |
| Average effective loan term                     | 6 years; 2 years; 4 years  |
| Any upfront or borrower contribution            | One must have saved for six months for the loan  
70% of available security upon completion  
5 times amount saved  |
| Annual interest rate charged                    | 15\% (revisable) on reducing balance  
2.5\% minimum technical fees  
1\% loan application fees – minimum of 100/= and maximum of 1000/=.  |
<p>| Method of interest calculation (reducing/deducting balance) | 15% (revisable) on reducing balance  |
| Interest collection method / when to pay interest | Regular installments with loan repayment  |</p>
<table>
<thead>
<tr>
<th>Parameters</th>
<th>Applicable conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indication of whether the loan is indexed to an external value</td>
<td>70% of available security after the plot has been developed society guarantee Least 4 guarantors (4 people) Power of Attorney Affidavit Local Authority Guarantee</td>
</tr>
<tr>
<td>Indication as to whether loan fund is managed in house or linked to an external service provider; retailed at station level.</td>
<td>Loan fund is managed in-house by region and retailed by savings scheme</td>
</tr>
<tr>
<td>Other parameters:</td>
<td>Loan is for incremental housing construction or improvement, borrower must present positive technical feasibility report, relevant quotations from suppliers of building materials, must provide proof of land tenure, land search documents.</td>
</tr>
</tbody>
</table>

Source: Field Survey, 2015

Through its programmes, NACHU offers microfinance loans for housing, and subsidizes technical services for those with modest incomes. As the only institution of its kind, both in the wider housing market and in the cooperative sector, NACHU’s role is of special interest in an analysis of institutional mechanisms for housing delivery to the urban poor.

Membership groups

For operational purposes NACHU has defined its different classes of membership as lower paid employees of formal institutions. These members who are mainly interested in new house building, rural cooperatives, frequently based on agricultural marketing cooperatives, middle income earners and informal settlement dwellers (over 60% of NACHU’s clients). NACHU micro-finance programme has borrowed from general micro-finance experience (including, for example, forming solidarity sub-groups of five, ‘watano’, to exert peer pressure) and adapted it to the requirements of the housing market and in particular the demand for shorter-term housing.
loans. While the housing process comprises much more than building housing units, the number of units facilitated by NACHU provides one measure of NACHU’s effectiveness, particularly in terms of overall demand and in comparison with other providers/facilitators. This delivery is a small proportion of national demand, most of which is met by the informal sector. However, similar social housing organisations face the same challenges in scaling-up delivery. As the microfinance programme grows more units are in the pipeline depending on the availability of finance.

Table 4.2: Growth of NACHU’s Member Deposit 2001 – 2006 (Kshs million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>2,552</td>
<td>3,083</td>
<td>5,135</td>
<td>5,323</td>
<td>14,372</td>
<td>18,478</td>
</tr>
<tr>
<td>USD</td>
<td>38,100</td>
<td>46,000</td>
<td>76,600</td>
<td>79,400</td>
<td>214,500</td>
<td>276,000</td>
</tr>
<tr>
<td>%change</td>
<td>+20.8</td>
<td>+66.5</td>
<td>+3.7</td>
<td>+170.0</td>
<td>+28.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Improved from NACHU, 2015

Chart 4.3 Showing Growth of NACHU’s Member Deposit 2001 – 2006

Source: Improved from NACHU, 2015
Table 4.3: Distribution of NACHU’s Savers by Amount Saved, as at June 2006

<table>
<thead>
<tr>
<th>Savings amount (Kshs)</th>
<th>Number of savers (individuals)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 10,000</td>
<td>295</td>
<td>28.9</td>
</tr>
<tr>
<td>&gt;10,001 – 20,000</td>
<td>229</td>
<td>22.4</td>
</tr>
<tr>
<td>&gt;20,001 – 30,000</td>
<td>206</td>
<td>20.2</td>
</tr>
<tr>
<td>&gt;30,001 – 50,000</td>
<td>212</td>
<td>20.7</td>
</tr>
<tr>
<td>&gt;50,001</td>
<td>80</td>
<td>7.8</td>
</tr>
<tr>
<td>Total</td>
<td>1022</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Improved from NACHU, 2015

Chart 4.4 Showing Distribution of NACHU’s Savers by Amount Saved as at June 2006

Source: Improved from NACHU, 2015
<table>
<thead>
<tr>
<th>Loan Product</th>
<th>Use</th>
<th>Growth of book value of loans portfolio(year-on year 2010-2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hatua new housing loan</td>
<td>For new house construction or house extension</td>
<td>100%</td>
</tr>
<tr>
<td>Huduma Infrastructure loan</td>
<td>Improve the physical infrastructure of their homes (installing electricity, water and sanitation facilities, sewerage systems, fencing and roads)</td>
<td>41%</td>
</tr>
<tr>
<td>Ploti resettlement loans</td>
<td>Buy land for residential and commercial purposes</td>
<td>94%</td>
</tr>
</tbody>
</table>

The first two products are incremental building loans and individual small disbursements are done periodically on demand to fit the progressive build effort. Amounts vary between US$2,300-US$58,000, with the larger amounts being group loans for buying plots of land. NACHU ensures that there is proper monitoring of the loan provided through close supervision of the progress of first disbursement to ensure adherence to loan agreement. Societies are required to meet monthly, collect the loans and deposit in NACHU account then file monthly reports on the projects implementation progress with any difficulties encountered. NACHU makes regular quarterly visits to each project, with more frequent visits for problematic projects, armed with suitable forms designed to capture vital information of the project implementation, progress and performance including the date of funds receipt, commencement of construction, expenditure to date and any problems and produce monthly reports indicating vital statistics on each project. In any event of loan default, the watano/society guarantors should contribute the required installment. If this does not happen then; between 0-30 days arrears, NACHU gives the first arrears notice, 30-60 days arrears, NACHU gives the final arrears notice and over 60 days.
arrears, the case of a defaulting member is handed to the debt collector who in turn will issue repossession letter and take legal action.

4.2.4 Pamoja Trust’s Akiba Mashinani Trust

Pamoja Trust is a non-governmental organization registered in Kenya under the Non-Governmental Regulations Act Cap. 134 Revised Edition 2012(1990). It helps slum villages to begin community-run daily savings and credit programs through the aid of Muungano wa Wanavijiji. It catalyzes community action, mobilizing the community, facilitating exchange visits between savings schemes and acting as a source of information and strategy advice. In addition, Pamoja Trust has helped create mechanisms for loans. It also assists in obtaining donor funds and provides technical support for managing loan repayments in the form of developing loaning systems and internal auditing. The saving schemes that started in Nairobi have now spread all over Kenya. With a total of 29 groups in slums assisted to start daily savings and credit schemes. Each group has membership varying between 40 to 500 members.

Muungano wa Wanavijiji and Location

Across Kenya, there are 168 active Muungano wa Wanavijiji saving schemes comprising of between 20-25,000 members each. Savings scheme leaders in each community govern their community’s Muungano wa Wanavijiji activities, including savings schemes. The governance is completely separate from the village elders that govern each settlement, though there is some overlap between the leadership. The regional executive committee comprises of 11 members, including the Chair, Secretary, Treasurer and Committee Heads. The members set-up and manage specific teams for each village.

Akiba Mashinani Trust (AMT)

In 2003, Pamoja Trust established AMT to “provide capital for house construction, purchase of land, infrastructure development, business development as well as investment opportunities for community savings.” A board of 7 Muungano wa Wanavijiji members, 2 Pamoja Trust staff and an external finance expert govern the AMT board. AMT began under the auspices of Pamoja Trust’s guidance but is poised to eventually separate and become an independent funding source for the Kenya Federation of Muungano wa Wanavijiji community groups.
## Table 4.5: AMT’s general policies and procedures for Housing Project Loan

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Applicable Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of loan</strong></td>
<td>Land, housing improvement, water &amp; sanitation access, and infrastructure loan</td>
</tr>
<tr>
<td></td>
<td>Mortgage; house upgrading; incremental; new construction unit; cross subsidy project</td>
</tr>
<tr>
<td><strong>Eligibility (membership status, age, accounts held)</strong></td>
<td>Borrower must be resident in the targeted area</td>
</tr>
<tr>
<td></td>
<td>Low income borrowers</td>
</tr>
<tr>
<td></td>
<td>Medium income groups for the purposes of cross subsidies</td>
</tr>
<tr>
<td></td>
<td>Member of saving scheme. Membership of SS is self-selected.</td>
</tr>
<tr>
<td></td>
<td>At least one year old as a member of saving scheme</td>
</tr>
<tr>
<td></td>
<td>Registered member</td>
</tr>
<tr>
<td></td>
<td>Holder of both savings and shares accounts</td>
</tr>
<tr>
<td></td>
<td>Regular shares subscriber</td>
</tr>
<tr>
<td><strong>Loan security (guarantee, property, cash)</strong></td>
<td>House; land; other assets; at least four guarantors</td>
</tr>
<tr>
<td>Parameters</td>
<td>Applicable Conditions</td>
</tr>
<tr>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Loan use (economic activities, business expansion, start-up, fixed or</td>
<td>Restricted to house construction, improvement; water, pipping, storage, construction,</td>
</tr>
<tr>
<td>working capital; agriculture; manufacturing, service, trade, letter of</td>
<td>improvement; infrastructure development</td>
</tr>
<tr>
<td>credit, housing)</td>
<td>Preferred – residential; may also be residential cum business</td>
</tr>
<tr>
<td></td>
<td>May be for purchase of land for settlement/house construction</td>
</tr>
<tr>
<td></td>
<td>Water and sanitation infrastructure</td>
</tr>
<tr>
<td>Average loan amount.</td>
<td>Kshs. 200,000 for 1st cycle loan to individual borrower in case of housing.</td>
</tr>
<tr>
<td>Loan size (maximum, minimum)</td>
<td>Kshs. 50,000 for 1st cycle loan to individual borrower in case of infrastructure.</td>
</tr>
<tr>
<td>Grace period</td>
<td>Maximum of three months after completion of construction.</td>
</tr>
<tr>
<td>Form of disbursement (cash, cheque, bank transfer, in-kind)</td>
<td>Cheque or bank transfer as may be practically convenient</td>
</tr>
<tr>
<td>Method of repayment and collection (personally at office, through</td>
<td>Through collectors and treasurers of savings scheme who will post directly to region</td>
</tr>
<tr>
<td>collectors, direct bank credit)</td>
<td>bank account</td>
</tr>
<tr>
<td>Repayment frequency (daily, weekly, biweekly, monthly, end-of-term)</td>
<td>Individual repay daily and weekly; the savings scheme repays weekly; while the region</td>
</tr>
<tr>
<td>Average effective loan term</td>
<td>repays monthly</td>
</tr>
<tr>
<td>Any up-front or borrower contribution</td>
<td>Savings account deposit of 20% of loan approved</td>
</tr>
<tr>
<td>Parameters</td>
<td>Applicable Conditions</td>
</tr>
<tr>
<td>--------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Annual interest rate charged, by month</td>
<td>1% per month = 12% per annum</td>
</tr>
<tr>
<td>Method of interest calculation</td>
<td>Reducing/declining monthly balance</td>
</tr>
<tr>
<td>Interest collection method/when to pay interest (upfront, instalment, end of period)</td>
<td>Regular installments with loan repayment</td>
</tr>
<tr>
<td>Indication of whether the loan is indexed to an external value</td>
<td>Loan is NOT indexed to an external value</td>
</tr>
<tr>
<td>Indication as to whether loan fund is managed in-house or linked to an external service provider: retailed at field station level</td>
<td>Loan fund is managed in-house by region and retailed by savings scheme</td>
</tr>
<tr>
<td>Other parameters:</td>
<td>Loan is for incremental housing construction or improvement, borrower must present positive technical feasibility report, borrower must present relevant quotations from suppliers of building materials, and borrower must provide proof of land tenure, land search documents</td>
</tr>
</tbody>
</table>

**Source: Field Survey, 2015**

Other classifications of loan facilities provided by AMT include property improvement loan, single dwelling development loan and multi-development loan. These facilities are used for financing property renovations, utility enhancements/customization, and are normally secured against property to be improved and repayable on flexible terms.

Single dwelling development loans are used for simple house construction and are considered as construction loans. AMT takes a financial responsibility over the payments during the construction phase. Upon completion of construction and ascertainment of the unit’s fitness for
occupancy, the construction loan is converted into a mortgage payable over a negotiated period but any case not exceeding 20 years.

Multi dwellers loans on the other hand are either for residential or commercial properties for sale to the final owners upon completion. The loan is tailored to be disbursed alongside project implementation mainly upon presentation of certificates of works completed. The principal loan amount disbursed shall not be payable during the construction period. The repayment of the loan upon completion is linked to sale of completed developments with the option of early retirement that does not attract any penalties or fees. The developers’ motivation for profit on total investment is supported through this form of bridging finance up until the sales are concluded within a negotiated period. They are also available for developers to build multiple units for rental income. The loan is structured such that principal repayment falls due upon start of commercial operations i.e., completion and occupation of the lettable space/residential units over a specified and agreed period. The construction loan is converted upon start of commercial operations into a mortgage and is repayable on the applicable terms. Loans given under this category by AMT are approved at market rates with no subsidies. These loans are given solely for the purpose of cross subsidization.

In order to avoid loan default, the group must ensure strict adherence to all loan guidelines, procedures, terms and conditions. It is the responsibility of every borrower to take the initiative to repay his/her loan on time. When this is not possible the borrower must immediately inform the group Manager of this development, and clearly outline when and how the due installment would be paid. The office must be informed about anticipated repayment difficulty well in advance, before default occurs. A defaulter is unlikely to access repeat loans.

The Finance Committee and the Manager/staff/clerk must visit all clients at least once before loan disbursement and once a month after loan disbursement. Finance Committee must visit the individual borrower immediately (within 7 days) payment of a loan installment is delayed. Any borrower who is not satisfactorily servicing their loan is not allowed access to savings. The alert is issued to the guarantors and their cooperation is demanded in recovering the delinquent loan. A late repayment penalty fee is imposed in accordance with loan agreement and payment is
demanded, in writing, from borrower if the debt is not made good within 14 days. In case of non-
payment within 6 weeks, the same is demanded, in writing, from both guarantors and borrower. 
Guarantors’ savings is confiscated to cover any outstanding balances within 8 weeks. Loan is 
recovered from guarantors’ ordinary savings.

4.3 Synthesis of the Models

In terms of the products, NACHU’s products appear to be the pace-setter in the low-income 
housing finance products’ implementation in Kenya. Akiba Mashinani Trust AMT and Jami 
Bora seem to have similar approach.

General requirement that cut across all the service providers include registration of housing 
cooperative society or a member of a group, have been an affiliate of the provider. The societies 
or groups must hold regular meetings and make monthly saving collections, and must conduct 
the affairs as per the (Cooperative Society's Act for apex co-operative society (ACS) and rules 
and by-laws for the NGOs). Must hold Annual General Meeting (AGM), and have resolutions 
authorizing the housing society or the groups to borrow. The groups or societies must have 
satisfactory general management record keeping ability with updated audited accounts and 
adequate capacity to administer the loan fund.

The loanee must be 18 years and above of age and a member of a registered housing cooperative 
society (which is an affiliate of the ACS) or group that is working with the NGO. The person 
must be an active member of the society or group with fully paid up share contributions. He/ she 
must give the name(s) of the next of kin and where this is not given or where the next of kin is a 
minor, the society or the group takes over the management of the property and repay the loan. 
The researcher established that, all NCHFIs require evidence of financial affordability, adequate 
security, appropriate guarantees and established savings track record (for at least 6 months). 
There is the requirement for adequate filing of all the legal documents at the same time 
participation in all education and loan training sessions.

Whether in ACS or NGO, client identification involves baseline surveys to establish the needs of 
the housing societies or groups. The types of NCHF products that these persons need will be
identified by the clients. Then from the survey’s findings, appropriate technical advice will be launched. Through such studies, the loan providers have always responded to members demand for housing microfinance through changes to both its product offerings and its funding strategy in order to expand and refine its housing loan products. They do engage in a market research and product development process, recruitment of experienced microfinance loan officers, installation of loan tracking system, and revision of their accounting system to separate lending from technical and other support activities.

The loan providers have an aggressive savings promotion campaign in order to increase their available loan capital. As part of this campaign, they have strengthened their relationships with individual and cooperative members through capacity building on leadership and governance, credit management and financial management. They also pursue commercial funds at market rates and donor guarantees for commercial borrowing, while continuing to seek below market funds from donors, foundations and social investors.

4.3.5 NCHF Case Studies

The following discussion looks at five case studies based on the models evaluated above and the study objectives i, ii and iii. This is aimed at answering research questions in line with the study objectives and the analysis of the respondences from questioners administered.

MODEL ONE

New Housing Model

Under the new housing model, finance is required for incremental construction of a new dwelling house by the urban poor households. The loanee must have land and must be willing to start the housing project on an incremental basis. The loan is for new house construction for a maximum amount. Examples in this category include Soweto in Kayole Estate and KCC estate in Eastlands along Kangundo Road.
1. K.C.C

History of the area

K.C.C settlement is located 8km to the North East of the Nairobi C.B.D, in Kariobangi South within the Nairobi’s Eastland area. The settlement started as a slum and the beneficiaries settled as a group. The land belonged to the then City Council of Nairobi (CCN). After settling and having a bond of one people, they formed an association to help them in solving their problems. The CCN tried to evict them severally with no success. After these several failed attempts, the CCN sort for an alternative land to settle them. This effort also failed. The group finally demarcated the land among themselves, on which they were later issued with allotment letters by CCN. The demarcation started from 1980 -2002. The plots are of equal sizes of 0.025ha available to each beneficiary. Some people sold their plots for between 100,000/= to 150,000/= (USD 1333 to USD 2000). Currently the plots go for 400,000 to 500,000/= (USD 5,334 to USD 6666).

Chart 4.5: Picture showing plots that have been developed in KCC

Source: Field Work, 2015

NACHU contribution in registration and formalization of group

NACHU partnered with the residents after forming the groups and educated them on saving to enable them acquire loans which were issued to them in phases to develop plots. In the first phase NACHU gave them each Kshs. 200,000 (2,700 USD). The second phase which was for
new housing and rehabilitation, the husbands were given Kshs. 60,000 (800 USD) and their wives Kshs. 40,000 (530 USD) which some are still repaying.

**Beneficiary Satisfaction**

This was aimed at determining the level of beneficiary satisfaction with the NCHF for the new housing model in the KCC project financed by NACHU as per the study objective (iii). The researcher accomplished this task by analyzing the responses from questioners collected.

In KCC, the study observed the following;

**Table 4.6 Levels of Customers Satisfaction KCC**

<table>
<thead>
<tr>
<th>Measured Variable</th>
<th>Number of Respondents</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the conditions achievable?</td>
<td>9</td>
<td>92.5</td>
</tr>
<tr>
<td>Was the loan affordable in terms of servicing it?</td>
<td>9</td>
<td>90</td>
</tr>
<tr>
<td>Are you satisfied with the facility?</td>
<td>9</td>
<td>89.1</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The study established that the beneficiaries level of satisfaction under this project was at 90.53%

**MODEL TWO**

**Rehabilitation Model**

Rehabilitation model involves upgrading an existing house to a much better dwelling with a loan of between Kshs. 200,000/= to 400,000/= as in the case of NACHU. The loan is used to progressively improve existing semi-permanent structures built on land that is owned by the cooperative societies or their members. The model enables households to meet the demand for interior improvements, and financing, immediate neighborhood upgrading e.t.c. This model was widely applied under the Huruma project by NACHU.
1. NACHU - HURUMA PROJECT

History of the area

The settlement is located about 7 km by road to the North East of Nairobi C.B.D in the larger Huruma estate, Eastlands of Nairobi. The beneficiaries were from one ethnic community. Initially, they settled in Kariokor and later moved to Karura forest along Kiambu road, a place they were given by NCC and named Huruma-Karura. They were later moved into Huruma Kiamaiko by NCC in 1973. The place was open field with no water or toilets. The beneficiaries decided to retain the use of the name Huruma.

All of them stayed in polythene houses in fear of being evicted. The residents appointed and created posts among themselves to help them control and solve any problem that probably would occur. This eventually led to the formation of their co-operative (Huruma Housing co-operative) Societies.

Chart 4.6 Picture showing developed housing units in Huruma

Source: Field Work, 2015

The plots were given free by C.C.N and they were issued with allotment letters. However, some members sold their plots immediately after allocation for Kshs. 10,000/= (130 USD). Currently built up plots go for 3,000,000/= (40,000 USD) while plots with temporary structures go for 1,000,000/= (13,300 USD).
**NACHU intervention in Huruma**

NACHU intervened after registration of their co-operative societies, and helped the members to organize their groups to start saving, and to acquire loan to develop the plots. Qualification was co-operative membership and savings portfolio. The loans were given in phases. First it was 80,000/= (1,060 USD) and after completing the repayment, while in the second phase, they were given 120,000/= (1,600 USD), which some members are still repaying.

**Beneficiary Satisfaction**

In line with objective (iii), to determine the level of beneficiary satisfaction an analysis of the respondents’ levels of satisfaction with the NACHU Huruma model case was undertaken.

In HURUMA, the study observed the following;

**Table 4.7 Levels of Customers Satisfaction NACHU, HURUMA**

<table>
<thead>
<tr>
<th>Measured Variable</th>
<th>Number of Respondents</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the conditions achievable?</td>
<td>10</td>
<td>98.0</td>
</tr>
<tr>
<td>Was the loan affordable in terms of servicing it?</td>
<td>10</td>
<td>92.8</td>
</tr>
<tr>
<td>Are you satisfied with the facility?</td>
<td>10</td>
<td>95</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The study established that the beneficiaries level of satisfaction under this project was at 95.27%.

**MODEL THREE**

**Resettlement Model**

Resettlement model aims at assisting members threatened with evictions or members with no land to use to access credit. The funding is for beneficiaries to buy land and put up some basic structures for immediate occupation. They can later borrow to construct permanent houses. Example of resettlement models include, Gatemu Housing cooperative and Belle-vue which is discussed below.
1. BELLE-VUE

Belle-Vue is a five-acre community estate off the Nairobi City County limits. It is a high density residential estate located at the boundary of Nairobi and Eastern counties. It is near Syokimau along Mombasa Road. Access is via 1.5 Km murram road branching off to the north of the dual-carriage way at Masterminds Tobacco factory in the larger Mlolongo area. The Bellevue Trust Land Project, which was launched in 1994, initially involved the resettlement of 184 families from the informal community of Mitumba Village in Nairobi. NACHU assisted the families to form and register the Bellevue Housing Cooperative Society, identify the property, and provided a loan to the cooperative for 50 percent of the cost of the land. GOAL International, an international NGO, provided 40 percent funding for the land purchase and legal assistance. The cooperative members raised the remaining 10 percent mainly through revolving savings schemes. It took the community approximately a year to raise their share.

NACHU and GOAL International initially contributed an amount of Kshs. 2 million (2,600 USD) to buy land for the evictees to settle. They went further and provided loans to members who could afford to pay them back to build houses on the plots that they had bought. Each member developed their housing according to their financial ability. This led to development of different housing typologies where some started by cartons, nylons, iron sheets, mud and wattle houses. The Government administration and the local authority complained about such developments which forced members to dig deeper into their pockets to develop reasonably better housing. Everyone has been improving the state of their structures due to administration pressure.

NACHU and GOAL International got involved in subdivision schemes to prevent conflicts and to enhance equal allocation of land to members. They also issued legal certification to the ownership of the plots to the members as a co-operative body and encouraged many of them to join. Initially the interest rate was at 15 percent with a maximum loan term of four years. NACHU retained the land title until all members had paid their share. Once the loan was paid in full, NACHU started the process of securing individual titles for the subplots. The members essentially leased the land until they had paid their share in full. The housing cooperative was
responsible for allocating the subplots to its members, collecting the funds to repay NACHU and managing the common spaces. The group completed the land purchase in 1998 and most of the families immediately began building on their plots. Currently, most families have completed repaying their land purchase loans. Households with more available income have succeeded in building stone structures. The majority of households, however, are living in provisional structures of corrugated iron or mud and wattle. Many have chosen to invest in building rental rooms of provisional materials rather than improving the structure in which they are living.

Without access to basic services, households in Bellevue were initially forced to buy water in 20-liter jugs from more than 3 km away. They used the open spaces and surrounding fields as temporary toilet facilities. With the help of another loan of Kshs. 10,000,000($100,000) which was an infrastructure loan from NACHU, the community was able to collectively pay to install four pit latrines and bring in a fresh water connection. The loan is repaid out of usage fees charged by the community for the water and the toilets. Although most households had little additional borrowing capacity after the land purchase loan, they are able to pay these usage fees, because the installation reduced existing expenses. Initially a piece of plot of size 21ft by 50ft cost Kshs 32,000 (420 USD) each. Currently, the market price is up to Kshs. 1,000,000/= (13,500 USD) per 21 ft by 50 ft plot size. Members were also trained on the housing co-operative matters to improve awareness.

**Beneficiary Satisfaction**

In line with objective (iii), to determine the level of beneficiary satisfaction, an analysis of the respondents’ levels of satisfaction with NACHU, Balle-vue resettlement model case study, was undertaken.
In BELLEVUE, the study observed the following;

**Table 4.8 Levels of Customers Satisfaction BELLE-VUE resettlement model**

<table>
<thead>
<tr>
<th>Measured Variable</th>
<th>Number of Respondents</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the conditions achievable?</td>
<td>9</td>
<td>95.2</td>
</tr>
<tr>
<td>Was the loan affordable in terms of servicing it?</td>
<td>9</td>
<td>94</td>
</tr>
<tr>
<td>Are you satisfied with the facility?</td>
<td>9</td>
<td>90.1</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The study established that the beneficiaries level of satisfaction under this project was at 93.1%

**Challenges faced in Belle Vue project**

- Progressive land acquisition and building takes time: Visiting Bellevue for the first time, many years after the initial land purchase, one is not immediately left with the impression of a successful housing programme. Most of the structures are provisional, the roads in the community are dirt tracks, and the community itself is in a rather remote location.

- Need for follow-up construction finance is vital: Perhaps the biggest complaint of Bellevue residents was that NACHU had not provided adequate follow-up loans to help them build once they finished repaying their land purchase loan. NACHU has resisted providing this sort of financing until all cooperative members have repaid their land repurchase loans, partly attributable to limited available loan capital.

- Individual land titles are still a challenge: Although NACHU has title to the overall Bellevue property, it still has several challenges to overcome in extending individual titles for each family. As outlined earlier, to grant individual titles, government surveyors would have to formally subdivide the land, services would have to be extended to each plot, and the constructions would have to meet building code standards. NACHU has managed to minimize some of the costs by lobbying the Government to accept NACHU’s existing sub-division.

- Lack of proper mechanism as a result of previous allocation site; the members who were settled in Mavoko are not comfortable due to non-strategically placed land, overhead high voltage power cables pass through the area therefore they cannot develop high-rise
housing. The area is also swampy making it inaccessible and impassable especially during a rainy season.

- The choice of the plot was not done in consultation with the beneficiary.
- Lack of funding for the very low income members who are not able to put up proper structures, thus not all inclusive.
- Terms and conditions by NACHU in servicing the loans are challenging in terms of expenses in building.

MODEL FOUR

Comprehensive Model

Comprehensive model offers an all-round type of loan for land purchase, housing improvement, water & sanitation access, and infrastructure loan, all in one package. The borrower must be resident in the targeted area. Loan security involves house; land; other assets; at least four guarantors. It is restricted to house construction, water, piping, storage, construction, infrastructure development. The loan is offered for incremental development. Examples include; Huruma project under Pamoja Trust and Kiambiu project under Jamii Bora.

1. Pamoja Trust AMT – HURUMA PROJECT

The area is called Kampi ya Moto and it is in the Kiamaiok area of Huruma, about 7 km from the Central Business District. Pamoja Trust assisted in upgrading the area which previously had no roads, water and decent houses. Initially it was a parking area for people who lived in surrounding government quarters. Through the local area Chief’s intervention, beneficiaries put up temporary structures in 1977. In 2001 the Nairobi City Council, through intervention of Pamoja Trust, allowed them to put up permanent structures. Each member got a plot of 14’x14’ but with only one block temporary certificate of ownership, communally owned, to stop members from selling their plots. Every member was supposed to pay Kshs.7, 500 for subdivision and property rates. The deposit for the plot was Kshs.1, 000 followed by a monthly contribution of Ksh 154 (USD 2.3) for about 20 years from 1977.
Financing Purchase of Plots
The residents, through facilitation by Pamoja Trust, formed Muungano wa Kampi ya Moto, a self-help group registered by the Department of Social Services. This self-help group then became a member of Akiba Mashinani Trust, a countrywide fund of Pamoja Trust. Muungano wa Kampi ya Moto raised 10% from its members and then Akiba Mashinani Trust loaned the remaining 90%. Members were paying Ksh 50 per week (USD 0.75) and after paying the equivalent of 10% they started getting building materials.

Borrowing from Groups
Akiba Mashinani Trust has made available construction loans amounting to Kshs.4.9 million (USD 73,000). Already, 62 rooms are ready. The project has 321 members and each member is expected to own 2 to 3 rooms. Members borrow from Trust Fund through group facility and not from banks. Through Pamoja Trust, the members opened a project account which deals with all building requirements. After saving at least 10%, Pamoja Trust gave members opportunity to apply for the remaining 90% for house construction. The money is transferred to Muungano wa Kampi Moto Trust which has the technical capacity to manage project activities.

Household Income and Expenditure
Most men and women are casual workers, some of whom sell vegetables whilst others work in kiosks and in construction sites as masons. Household incomes range from Kshs. 3,500 to Kshs. 6,500 (USD 52-100) per month. Most households spend about Kshs. 100 (USD 1.5) per day.

Beneficiary Satisfaction
In line with objective (iii), to determine the level of beneficiary satisfaction an analysis of the respondents’ levels of satisfaction with Huruma Pamoja Trust comprehensive model was carried out.
In HURUMA, the study observed the following:

Table 4.9 Levels of Customers Satisfaction, PAMOJA TRUST, HURUMA

<table>
<thead>
<tr>
<th>Measured Variable</th>
<th>Number of Respondents</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the conditions achievable?</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Was the loan affordable in terms of servicing it?</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Are you satisfied with the facility?</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The study established that the beneficiaries level of satisfaction under this project was at 100%.

2. Jamii Bora – KIAMBIU PROJECT

**Historical background**

Kiambiu lies approximately 7 km East of Nairobi’s Central Business District. Administratively, it is in Eastleigh South sublocation in Makadara Subcounty. It is linked to Eastleigh and other parts of the City by a murram road. The settlement derived it’s name from a former prominent politician, Mbiu Koinange, who frequently used the adjacent Eastleigh Air base during Kenya’s war of independence. Most of the houses are built of temporary materials such as mud and timber under an iron sheet roof. A few individuals have managed to use quarry stones. There are neither access roads nor electricity in the slum. Water is provided by individuals and Maji na Ufanisi, an NGO, which also runs a pay-as-you-use public bathroom and toilet. Toilets generally consist of pit latrines, some of which are constructed on top of a sewer pipe, illegally breached for this purpose.

Households gave the following reasons for settling in Kiambiu; proximity to town (approximately 7 kms), it was also an open area behind the Eastleigh Air Base with no owner. Residents settled illegally. The area Chief, in 1999, allocated them temporary occupation licenses for plots of 10’x14’ for which they paid Kshs 5,000. Most of the people are casual labourors and are able to walk to work in town, Buru Buru and the industrial area. The people have temporary ownership certificates and allotment numbers, given by the Chief of the area.
Originally owners saved gradually until they raised the required Kshs 5,000 (USD 75). Currently, a structure cost Kshs 30,000 (USD 450) and the plot Kshs 120,000 (USD 1,800). Savings over time from casual labour up to 3 years and others joined merry-go-rounds. Yet others joined Jamii Bora Trust that gave them loans in the form of construction materials. Residents buy shares and depending on the number one has, one is eligible for a loan of between Kshs.1,000 and Kshs.5,000 (USD 15-75), payable at Kshs.50 (USD 0.75) per week.

**Household Income**

Household income varies a lot. An average household will take home about Kshs.2,500 –Kshs.4,500 (USD 37-67) per month. But it is not unusual for some households to have incomes as large as Kshs.10,000 (USD 150), especially those that work in the industrial area. Some men work in the industrial area as casual workers while others sell clothes in Gikomba market. Yet others are hawkers and businessmen (kiosk owners). Women work in the adjacent estates as house-helps, casual workers, hawkers and in businesses (operating small kiosks in the slum). Household spend at least Kshs.180 (USD 2.6) on breakfast, lunch and supper, which translates to Kshs.5,400 (USD 80) per month. Most of the household income is spent on food and education.

**Financing of house construction by Jamii Bora**

Residents get loans from Jamii Bora Trust which are given out in the form of materials. A room of 10’x10’ costs Kshs.30,000 (USD 450) which takes about 3 years to pay back. Some members joined Jamii Bora Trust, while others are church-based merry-go-rounds which save and also borrow from Jamii Bora. The group membership for Jamii Bora is between 10 to 15 and they pay about Kshs.50 (USD 0.75) per week. Loans given to members range from Kshs.1,000 to Kshs.10,000 (USD 15-150) depending on one’s shares.

Group borrowing from Jamii Bora Trust loans, carry an annual interest rate of 10% for Kshs.10,000 (USD 150), a member is allowed 50 weeks to pay. The study established that default rate is very low and where people are not able to pay the groups take up the responsibility to do so. A few people (10%) have accounts in Equity Bank and the rest save with Jamii Bora Trust. Jamii Bora Trust gives the materials to construct depending on one’s savings and a 10’x10’ structure
costs Kshs.30,000 (USD 450). If materials are readily available it takes 2 weeks to build a temporary structure but 3 months if there is no consistent supply of materials.

**Beneficiary Satisfaction**

In line with objective (iii), to determine the level of beneficiary satisfaction, an analysis of the respondents’ levels of satisfaction with the Kiambiu, Jamii Bora Trust comprehensive model case study was undertaken.

In Kiambiu – the study observed the following:

**Table 4.10 Levels of Customers Satisfaction, Jamii Bora, KIAMBIU Project**

<table>
<thead>
<tr>
<th>Measured Variable</th>
<th>Number of Respondents</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Were the conditions achievable?</td>
<td>3</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Was the loan affordable in terms of servicing it?</td>
<td>3</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Are you satisfied with the facility?</td>
<td>3</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The study established that the beneficiaries level of satisfaction under this project was at 100%.

**4.3.5 Model Summary**

**Typologies**

The following discussion gives a summary of the findings and analysis of models discussed above i.e. type 1, type 2, type 3 or type 4, depending on the key attributes of each. The study established that all the NCHF are monetary in nature, but at the same time all of them are accompanied by technical support services which vary with the model typology. The models studied revealed that ACS, technical advice is offered at a fee of 2.5% of the loan amount applied. They charge an interest rate of 15% on reducing balance on all loans although this rate is subject to regular review. Insurance fees is payable once in advance depending on loan amount and repayment period; a schedule for the premium to be paid is provided. The minimum repayment period for the loans is three months. Should one opt to pay within one or two months, he/she will be required to pay the interest for the three months.
With the NGO type, the borrower must present positive technical feasibility report, relevant quotations from suppliers of building materials and must provide proof of land tenure and land search documents. Further, members of the housing societies or groups who are saving for a house must provide accounts targeting acquisition of a housing loan to either build a new house, rehabilitate an old one, install water and electricity or toilets (infrastructure), or buy land.

Table 4.11: Summary of findings on the different kinds of NCHF Models in Kenya

<table>
<thead>
<tr>
<th>Product Type</th>
<th>Key Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type 1</strong></td>
<td></td>
</tr>
<tr>
<td>New Housing Model (examples KCC and Soweto in Kayole)</td>
<td>The demand is that the client must have land first and must be willing to start the housing project on an incremental basis.</td>
</tr>
<tr>
<td></td>
<td>Loan for New house construction/completing a new house.</td>
</tr>
<tr>
<td></td>
<td>Maximum loan Kshs. 1,000,000/= (in some cases)</td>
</tr>
<tr>
<td></td>
<td>Grace Period 6 months</td>
</tr>
<tr>
<td></td>
<td>Maximum repayment period 6 years.</td>
</tr>
<tr>
<td></td>
<td>Savings deposit 20%</td>
</tr>
<tr>
<td><strong>Type 2</strong></td>
<td></td>
</tr>
<tr>
<td>Housing Rehabilitation Model (example, Huruma)</td>
<td>The loan applicant must have an existing structure</td>
</tr>
<tr>
<td></td>
<td>The structure based on the loanee credibility appraisal, must either be leaking roof, damaged wall, poor room conditions or any other kind of need that requires rehabilitation.</td>
</tr>
<tr>
<td></td>
<td>Maximum loan Kshs. 200,000/=</td>
</tr>
<tr>
<td></td>
<td>Grace Period 6 months</td>
</tr>
<tr>
<td></td>
<td>Maximum repayment period 4 years</td>
</tr>
<tr>
<td></td>
<td>Savings deposit 20%</td>
</tr>
<tr>
<td><strong>Product Type</strong></td>
<td><strong>Key Attributes</strong></td>
</tr>
<tr>
<td>-----------------</td>
<td>-------------------</td>
</tr>
<tr>
<td><strong>Type 3</strong></td>
<td>This type of NCHF is for moving people into new areas.</td>
</tr>
<tr>
<td>Ressettlement</td>
<td>It involves land purchase for persons who are either squatters, tenants who want to leave their house tenancy life to landlords. These are persons who can through the strength of numbers buy land together.</td>
</tr>
<tr>
<td>Model (example, Bellevue)</td>
<td>The product here is just land and financing after land purchase.</td>
</tr>
<tr>
<td></td>
<td>Loan for buying land for society members.</td>
</tr>
<tr>
<td></td>
<td>Maximum Loan Kshs. 60,000/= per member of the society (in some cases)</td>
</tr>
<tr>
<td></td>
<td>Grace Period 3 months, Maximum repayment period 2 years</td>
</tr>
<tr>
<td></td>
<td>Savings deposit 20%</td>
</tr>
<tr>
<td><strong>Type 4</strong></td>
<td>Loan for installing infrastructure (for instance electricity, water, roads &amp; toilets among others).</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Maximum amount Kshs. 60,000/= per member within a group</td>
</tr>
<tr>
<td>Model (example, Huruma; A.M.T) and Bellevue- Water and Sanitation</td>
<td>Grace Period 3 months</td>
</tr>
<tr>
<td></td>
<td>Maximum repayment period 2 years</td>
</tr>
<tr>
<td></td>
<td>Savings deposit 20%</td>
</tr>
<tr>
<td>Product Type</td>
<td>Key Attributes</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Comprehensive Model (example, Huruma; Kiambiu)</td>
<td>Type of loan is for land, housing improvement, water &amp; sanitation access, and infrastructure loan.</td>
</tr>
<tr>
<td></td>
<td>Borrower must be resident in the targeted area</td>
</tr>
<tr>
<td></td>
<td>Low income borrowers</td>
</tr>
<tr>
<td></td>
<td>Loan security involves house; land; other assets; at least four guarantors</td>
</tr>
<tr>
<td></td>
<td>Restricted to house construction, improvement; water, piping, storage, construction, improvement; infrastructure development</td>
</tr>
<tr>
<td></td>
<td>Loan size (maximum, minimum) Kshs. 200,000 for 1st cycle loan to individual borrower in case of housing. Kshs. 50,000 for 1st cycle loan to individual borrower in case of water and sanitation.</td>
</tr>
<tr>
<td></td>
<td>Loan is for incremental development.</td>
</tr>
<tr>
<td></td>
<td>Grace period is a maximum of three months after completion of construction.</td>
</tr>
</tbody>
</table>

Source: Fieldwork, 2015

General Challenges of the Models
i. Loan diversion by the householder— is the main source of defaulting in the early years leading to Stalled houses. This is a common problem, also caused by under-funding. Stalled houses bred customer dissatisfaction and defaulting among the householder. Clients’ dropout, was the biggest threat to the K-Rep project Nakuru, 210 clients (52.2%) dropped out or become dormant out of 400 of those on.

ii. The amount of loans sufficient for housing investment are significantly higher than normal microfinances and require a longer period to pay back. For the lender this means that the loans are lent for a longer period and that they are recovered more slowly,
limiting the ability to lend. Longer lending periods in turn lead to a higher credit risk, the erosion of resources through inflation (if normal interest rates are lower than inflation), and higher interest rate risk where fixed rates are offered.

iii. The issue of loan guarantees and their role in facilitating the development of housing microfinance is another challenge. Discussions with Kenya banks points to limited experience in this area. Current practice indicates that even when a borrower has a guarantee, banks will carry out due diligence to determine credit worthiness. The cost of a guarantee was established to be in the range of 2-3% of the amount borrowed.

4.3.6 Other Methods Used by Urban Poor Households to Acquire own Housing in Nairobi, Kenya

Apart from the above-discussed models, it is worth noting that in the course of this study the researcher noted that there are other poor urban households in Nairobi who have not been able to access funds from NCHF institutions or any other MFIs and yet they have constructed incrementally the houses they currently occupy. This was noted in the case of Mwiki Estate, with the saving methodology employed by the residents highlighted in the following paragraphs:

**MWIKI ESTATE**

Mwiki, in Kasarani Division of Nairobi, lies 25 km from the Central Business District. The land initially belonged to a family but it was later sold to land buying companies and cooperatives societies. One of these, Karura land buying company, later bought most of the area to settle their landless from Karura village on the outskirts of Nairobi. Some of the land was previously a quarry, but the site now accommodates shanties, semi-permanent and permanent structures, shops, churches, private schools and clinics.

Households gave the following reasons for settling in Mwiki:

- Land prices in the area were low as the site is rocky and not many people were interested in it.
- Deposits for plots of land, each Ksh 11,000 in 1998, were affordable as they were payable over a long period of time;
- They had no other land on which to settle;
The majority of households have share certificates from the land buying company, while a few have title deeds. Obtaining a title deed costs Ksh 18,500 (USD 280) which most of them could not afford. In Mwiki, a fast-developing low-income area on the eastern side of Nairobi, price of plots were Ksh11, 000 per share in 1998 for a 50’x75’ plot. Currently, the same plot costs between Ksh 500,000 and Ksh 1,000,000 (USD 7,500 - 15,000), depending on the actual location. Plots nearer the main road are more expensive.

**Methods used by Households in Mwiki to Finance Acquisition of Housing**

Individuals used their wages from casual labour (in coffee plantations) to buy plots. With as little as Ksh 20, one could register to buy shares in the land buying company. Financing also came from merry-go-rounds and savings built up over a long time. The original plot owners approached quarry owners to determine how much they would be required to pay, in installments, for a lorry-load of quarry stones. A quarry owner would open a register to record the installments received from a plot owner, until enough materials had been paid for. Other plot owners saved with hardware shops, following a similar procedure. Installments were affordable as they ranged from Ksh 50 to Ksh 500 (USD 0.75-7.5). Depositing money with these “intermediaries” protected savings from diversion to other purposes.

There were also merry-go-round groups organized by women each consisting of 5 to 10 people. Members saved an average of Ksh 50 (USD 0.75) per person per week. Borrowing is based on the amounts saved and it is rotational. The majority of owners constructed their houses in stages. The first stage was to accumulate enough savings for the purchase of construction materials as explained above to build one room. Once enough materials had been purchased, they were taken to the site. The second stage was to look for construction workers to build the foundation and cast the floor slab. Building proceeded in stages as money became available to pay the workers, and it could take up to 4 years to construct two to three rooms. A standard sized room of 10’x10’ built of permanent materials would roughly cost Kshs. 85,000 (USD 1,300) while a semi-permanent room would cost Kshs 45,000 (USD 670). The cost varied due to changes in the price of construction materials and the time taken to complete one room.
Household Income in Mwiki
Household income ranges from Kshs.3,000 to Kshs.6,000 (USD 45-90) per month. Generally, the main source of income for men is work on coffee plantations, construction sites or quarries, while women earn their livelihoods from selling vegetables, working as house-helpers or washing clothes. Household incomes are erratic as they are derived primarily from casual employment.

Household Expenditure
The study established that, on average, a typical household spends Kshs. 200 (USD 3) on food per day if three meals are taken, or Kshs. 6,000 (USD 90) per month. To save money for house building, households skip meals and cut down on other expenditures.

4.3.7 Summery of Socio-Economic and Demographic Characteristics of Poor Urban Households under the Study
From the foregoing discussion, household income ranges from Kshs. 3,500 to Kshs. 6,500 (USD 52-100) per month for the beneficiaries who live in Bellevue, Huruma, Kiamaiako, Soweto in Kayole and K.C.C and Kshs. 2,500 to Kshs. 4,500 (USD 37-67) per month, for beneficiaries living in Huruma and Kiambiu and finally Kshs. 3,000 to Kshs. 6,000 (USD 45-90), for the beneficiaries living in Mwiki. These give an average household income ranging from Kshs. 3,666.67 to Kshs. 5,666.67.

Households living in Bellevue, Huruma, Kiamaiako, Soweto in Kayole and K.C.C spend about Kshs. 100 (USD 1.5) per day which is about Kshs. 3,000 per month, those living Huruma and Kiambiu spend 180 (USD 2.6) per day which translates to Kshs. 5,400 (USD 60) per month and those living in Mwiki has an expenditure of Kshs. 200 (USD 3) per day which is Kshs. 6,000(USD 70) per month. These give an average household expenditure of Kshs. 160 per day which is Kshs. 4,800 (USD 54) per month for the households living within the case study areas.

Casual works form the major sources of income for the beneficiaries living within the case study areas. These casual works comprise of sale of vegetables, operation of kiosks, washing of clothes within the neighbouring estates mainly for women, work in construction sites mainly for men.
and casual work in industrial area, sales of clothes in Gikomba market, and hawking for both women and men. Table 4.12 below summarizes these facts emanating from case study areas.

### Table 4.12 Socio-Economic & Demographic Characteristics of the Beneficiaries

<table>
<thead>
<tr>
<th>Employment</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>26%</td>
</tr>
<tr>
<td>Regular Employee</td>
<td>24%</td>
</tr>
<tr>
<td>Casual Employees</td>
<td>25%</td>
</tr>
<tr>
<td>Own Business/Own Account Worker</td>
<td>19%</td>
</tr>
<tr>
<td>Student/Apprentice</td>
<td>4%</td>
</tr>
<tr>
<td>Pension/Retirees</td>
<td>0.6%</td>
</tr>
<tr>
<td>Others/Unknown</td>
<td>0.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Show dwellers Income and Expenditure</th>
<th>Mean</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capital income per month</td>
<td>Kshs. 3,705 (USD 48.6)</td>
<td>Kshs. 3,000 (USD 48.6)</td>
</tr>
<tr>
<td>Per capital expenditure on basic need per month</td>
<td>Kshs. 2,493 (USD 32.7)</td>
<td>Kshs. 2,000 (USD 32.7)</td>
</tr>
<tr>
<td>Rent per month</td>
<td>Kshs. 797 (USD 10.4)</td>
<td>Kshs. 700 (USD 10.4)</td>
</tr>
<tr>
<td>Rent as 0% of basic household expenditure per month (Rent)</td>
<td>17.0%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Food as 0% of basic household expenditure per month</td>
<td>58.8%</td>
<td>52.9%</td>
</tr>
<tr>
<td>Water as 0% of basic household expenditure pr month</td>
<td>4.4%</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

*Source: Author, 2015.*

From the above averages of household income and household expenditure, we conclude that the beneficiaries are the urban poor households as per study definition.

### 4.3.8 Summary of Targets and Achievements by Various Service Providers

**NACHU**

Since 2003 NACHU has facilitated the construction of 185 units for low-income groups and further 80 for other cooperative clients within the study area. It has also facilitated the acquisition of more than 1,000 plots for members. While the housing comprises much more than building
housing units, the number of units facilitated by NACHU provides one measure of NACHU’s effectiveness, particularly in terms of overall demand and in comparison with other providers/facilitators. This delivery is a small proportion of national demand, most of which is met by informal sector. However similar social housing organizations face the same challenge of scaling-up delivery. As the microfinance programme grows, more units are in the pipeline with 1,000 units completed between 2007 and end of 2009.

*Pamoja Trust*

Through Akiba Mashinani Trust, Pamoja Trust has made available construction loans amounting to Kshs. 4.9 million (USD 73,000). Already, 62 rooms are ready within the study area. The project has 321 members and each member is expected to own 2 to 3 rooms.

*Jamii Bora*

Jamii Bora Trust (now a bank) has its pilot projects in Kiambiu- Nairobi, and in Kisaju, in Kaputei, North of Kajiado District. Residents get loans from Jamii Bora Trust which is given out in the form of materials for the housing project. A room of 10’x10’ costs Kshs. 10,000 (USD 150) which takes about 3 years to pay back in Kiambiu.

In Kisaju, Kaputei North in Kajiado Sub-County, about 250 families have already moved from informal settlements in Nairobi to their own two bed roomed houses, for which they pay only Kshs. 2, 500 a month. With innovation, most hurdles are overcome, enabling people earning less than Kshs. 6, 000 a month to own this type of a house. The project was aimed at settling 2,000 families from Mathare, Kibera and Mukuru kwa Njenga slums in Nairobi.

The low-cost housing model incorporate what mortgage financiers have not been able to offer. Members receive loans from Jamii Bora, repayable with an annual interest of 8.5 to 10 percent. The members can choice from different house models. They are organized in groups to guarantee each other mortgages or Kshs. 150,000 for a two bedroom house.

The project is designed in such a manner that half the cost of infrastructure is charged on the residential area and the rest on the commercial zones. The home owners pay the microfinance a
Kshs. 500 monthly maintenance fee. In this low-income housing estate, residents organize themselves into neighborhood for management of open spaces, parks and play grounds. The other trick used to secure building mainly for Kshs. 150,000 for two bed roomed units is in on site fabricated materials. This guaranteed that the cost of materials is reduced by up to 50 percent; construction time is also considerably reduced. The cooperative model has therefore helped low income earners to own their own homes in a more innovative manner.

4.3.9 Other Interventions and Achievements
NGOs play an important role in housing delivery, often with the support of international bodies. Homeless International is working with the Pamoja Trust to enable more than 4,000 households to obtain land and/or secure tenure, 172 households to upgrade their homes, and in partnership with the World Bank, relocate 20,000 railway dwelling families in Nairobi, Kenya, to sustainable accommodation. In September 2012, Jamii Bora Makao initiated its second phase of a Ksh5 billion low cost housing project that will deliver 2,200 houses. The first phase of 950 houses has been completed and low cost, two-bedroom units are being sold for US$18,000 (Khs1.58 million) – still out of reach for many. The second phase of 1,250 houses, now initiated, will include housing that costs between US$30,000 and US$65,000. The project is 55km from Nairobi and 20km from a planned city known as Konza City. Habitat for Humanity also works in Kenya, and in 2012 offered loans and construction technical assistance to 968 families.

Currently to take cooperative models to a higher level, Appex Cooperative Societies like NACHU plans to provide mortgages to its members through a five year repayment plan in partnership with Kenya Commercial Banks mortgage subsidiary Savings and Loans (S & L). The Cooperative Insurance Company (CIC) has come on board to provide insurance for the construction sites and homes once they are completed. In this new model, cooperative members are allowed to save an amount of Kshs. 200 a month over a certain period of time, they then qualify to get a loan up to five times their total savings depending on their ability to repay. A gradual financing method is used to assist those who already have land to build their houses. Under the scheme, a member would get a loan to build a two roomed unit, to enable him/her move out of the rented house and get financing for the rest of the building.
In another model, groups that want to pool their resources to buy land for latter subdivision only need to raise 20 percent of the price; the remaining 80 per cent would be financed. It may seem to take longer for some lower income earners through this method before they can get a title deed to their own property, but these developments are giving these people hope, when in the past, there was none.

**Sources of Finance for NCHFIs in Kenya**

Sources of funding for the above NCHFIs projects included member’s saving and donor funding. To go to scale NCHFIs are exploring prospects of leveraging capital from corporate social responsibility funds and from the banking sector. Savings mobilization is especially seen as critical for micro-finance institutions that operate without donor assistance. It is less so for NACHU as the organization has historically depended on donor grants to finance operational costs and to capitalize its revolving fund. All the same, the ability to mobilize savings is important for any financial intermediary that intends to become self-sustaining in the long-term, especially if a decline in external support is anticipated.

**Loan Recovery**

The overall loan recovery rate for the NCHFIs, from the research findings, average at around 86%, but this varies by loan product. For NACHU 69% in 2006 for new housing loans, 94% for rehabilitation loans, 129% for group loans (indicating pre-payment), 55% for resettlement loans and 69% for infrastructure loans. The payment of group loans is consistent with the commercial character of the rental housing financed by these loans. The NCHFIs aim to achieve an overall repayment rate of 95%, a target which compares well with best practice for micro-finance operations. A loan ageing analysis shows progressive improvement in the management of arrears.

The study established that NCHFIs are currently making substantial progress in loan recovery as a result of three recent measures: recruitment of highly qualified finance staff, consisting of qualified finance managers and micro-finance officers; the installation of loan tracking software, and the use of auctioneers to recover loans long overdue. In strict terms, a micro-finance operation is sustainable only if the organization is able to cover all of its expenses with
operational income, and generate sufficient surplus to maintain the real value of equity base. In these terms, NCHFIs in Kenya operations were found not sustainable in that they have not attained the benchmarks set by best practice but there is consistent improvement.

**Growing Demands for Loans and Capital Shortage**

All the NCHFIs face a greater demand for loans than they are able to meet from available resources. Table 4.13 shows the unmet demand loans at about 65% roughly estimated at Kshs. 25-30 million (USD 373,000-448,000), a conservative amount as some potential borrowers probably do not come forward, restrained by the knowledge that NACHU has limited funds. The current figures were not available for Jamii Bora members. However, Akiba Mashinani was reported at 66%.

The mobilization of memberships seems to be running far ahead of the availability of resources for lending by NCHFIs abilities. NCHFIs have found it difficult to raise funds from commercial banks or the capital market due to constraints by the relatively small size of the organizations and the limited availability of mechanisms, such as guarantees, to enhance the credit standing of small organizations. These institutions are however exploring ways of obtaining additional resources to expand its revolving fund, from both local and external sources.

**Table 4.13 Loan Demand from NACHU**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>2006</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of housing and rehab loan applications by individuals during the year (i.e. loans that NACHU conditions)</td>
<td>228</td>
<td>207</td>
<td>176</td>
<td>154</td>
<td>765</td>
</tr>
<tr>
<td>Number of housing and rehab loans (individuals) granted during the year</td>
<td>20</td>
<td>24</td>
<td>27</td>
<td>27</td>
<td>94</td>
</tr>
<tr>
<td>Loans granted as a % of eligible loans</td>
<td>20.8</td>
<td>29.8</td>
<td>37.5</td>
<td>69.8</td>
<td>34.1</td>
</tr>
</tbody>
</table>

*Source: NACHU, 2015*
4.4. Beneficiary Satisfaction Summary Analysis

Potential exists for community-based finance of basic infrastructure. As discussed above, one obstacle to the enabling environment for housing finance for the poor is that households typically have to pay high prices on the informal market for basic services in order to be within regulations. NACHU’s experience highlights another potential innovation—providing a loan to all of the members of the Bellevue community for the installation of water and latrines—or community-based financing of basic services. Although it is limited in scale, NACHU’s Bellevue and Jamii Bora, Kiambiu experiences provide valuable insights into how creative housing finance can overcome obstacles relating to land availability, access to basic services, and affordability.

NCHF providers deal with low income and very low income households. These form the bulk of their clients with typical incomes of Kshs. 6,000 per month (about $45). That notwithstanding, the researcher received responses and conducted interviews with some clients who had utilized the loan successfully to the final stages. Figure 4.13, Charts 4.13 and Pie-chart 4.13 gives the summary of the levels of beneficiary satisfaction with the four models.

Figure 4.13: Showing Beneficiary Satisfaction for Four Types of Models

Source: Author, 2015
When asked whether the loan conditionalities were achievable, all the respondents (100%) responded to the affirmative. One of the beneficiaries said that the conditionalities were proper
and necessary to encourage members to work hard and at the same time, for organizations to run smoothly, they need checks and balances to regulate their operations. Affordability of the loan facilities was also confirmed as reasonable. 89% of the respondents said that the loans are affordable, while 94% said they are satisfied with the product of the NCHF institutions. Some of the respondents were of the opinion that the interest rate of 19% that they were charged was a drawback and suggested the rate to be lowered to between 10% – 15%. Another respondent said that although the conditionalities are achievable, the 6 months savings period and 20% of the target amount may not be favorable to everyone as this could mean that one benefits according to one’s ability.

4.5. Political Involvement and Credit Environment

In line with objective (ii), the legal and institutional environment under which NCHFIs operates has been partly dealt with under chapter 2 literature review, however it’s imperative to note that there is strong political influence on these two factors that determine the operation or effectiveness of NCHFI’s issues in reaching beneficiaries as discussed below.

4.5.1. Political Involvement

Political interference and involvement was noted, for instance, the Presidential revocation of co-operative loans in 2003, which set in the problems of blatant defiance by the primary societies or the members not to pay any outstanding loans as they thought this was a blanket directive. Soon after the installation of the National Rainbow Coalition (NARC) administration of the Kenyan Government, the President asked the Ministry of Co-operative Development to write off all the debts of co-operative societies. This referred to societies in the agricultural sector, more specifically the tea and coffee sector. The understanding of other co-operative societies was that every other co-operative society debt was to be written off. A case in point is the Kariobangi Self-Help Housing Society whose members were reported by NACHU to have stopped paying and are in real problems with their service provider NACHU. The members felt that they should not pay, while at the same time the title for the entire scheme is with NACHU as a security against the loan.
4.6. Credit Environment

The commercial banks in Kenya offer various loan products for salaried or applicants with regular incomes who in most cases, hold accounts with the particular commercial bank or a sister commercial bank. However the applicant must have a credible bank statement acceptable to the commercial bank where the applications are made. The commercial banks have stipulated rules and conditions that govern such transactions as provided by the Central Bank of Kenya Act. The rules and regulations emerge from laws and statutes that govern the institutions that provide loans and advances as explained earlier in chapter two. These rules and regulations adversely affect the credit environment in Kenya especially to the low-income bracket in the country. In line with the stipulated rules and regulations, Commercial banks across board that were examined have stringent measures some of which are mentioned briefly below in table 4.14.

Table 4.14 Summary of Conventional Commercial Banks Lending Conditions in Kenya

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>CONSTRAINING CONDITIONS GUIDED BY STATUTES, RULES AND REGULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of Funds</td>
<td>Loans only available for complete construction of structures that meet building codes standards on land with clean title (implies on-site access to basic services). Estimated minimum value of such a home = $25,000.</td>
</tr>
<tr>
<td>Income Requirements</td>
<td>• Will only consider formal employment income or income of a registered company with audited financial statements.</td>
</tr>
<tr>
<td></td>
<td>• High estimates of monthly family expenditures ($512 per family unit per month for KSL) used in determining income available for loan repayment.</td>
</tr>
<tr>
<td></td>
<td>• Will often only consider income from the primary income earner in the household.</td>
</tr>
<tr>
<td>Loan-to-Value Ratio</td>
<td>• Loan can only finance 60 to 70 percent of the total cost of the home as per Central Bank of Kenya rules and regulations.</td>
</tr>
<tr>
<td></td>
<td>• Maximum loan amount should not exceed three times the borrower’s annual disposable income.</td>
</tr>
</tbody>
</table>
### Guarantee Requirements
- Liens on freehold or leasehold title are the only guarantee option permitted, with the applicant paying all processing fees

### Additional Fees and Commissions
- Property and life insurance on the borrower (not available for non-permanent structures): 0.3 percent of loan amount.
- Stamp duty and mobilization fees: 6 percent of the loan amount (for property registration and bank administration)
- Legal and other fees: $600 - $900

*Source: Author, 2015*

#### 4.7 Prudent Lending Regulations that could be adopted in Kenya

The experience from other countries suggests that the frameworks for licensing, regulating and prudential supervision need to be well adapted and flexibly designed to reflect the specific characteristics and stage of evolution of the microfinance sector in a given country, yet this is not the case in Kenya. Some countries regulate their MFIs through a dedicated microfinance law, for example in Benin. Others regulate their MFIs through their commercial banking law, for example Ghana’s rural credit banks (RCBs). Moreover, there may be separate laws for cooperatives and non-bank financial institutions. For example, Ghana’s savings and loans institutions are regulated by its Non-bank Financial Institutions Law. Tanzania’s semi-formal institutions are subject to the Cooperative Societies Act and are regulated by the Ministry of Cooperatives (Kihato, 2013).

Ghana and Tanzania both have a three-tiered system of regulation and supervision. Formal institutions are regulated as banks, semi-formal institutions are regulated as non-bank institutions, and informal institutions are un-regulated. The size of the operation as well as its linkages with other MFIs or commercial banks, which may increase systemic risk, are key considerations in the design of prudential legislation and regulation which can be adopted with modification in Kenya to enhance availability of housing finance for the urban poor.
A positive enabling environment for housing microfinance, therefore, not only requires a good regulatory context for housing and property issues, but poor households must also have access to land, and be able to afford to build on it. Moreover, if financial services providers are constrained—by their sources of funding, restrictions in their charters, or by the government—they may be unable to develop appropriate housing microfinance products for poor households.

4.8 Achieving Affordability through Progressive Building and Rentals

From the foregoing it is evident that affordability of housing for low-income families is a function of the relationship between poor households’ available income and the cost to acquire land, build a house, and install basic services. By poor urban households purchasing land from private owner or leasing from Government of Kenya and paying required fees to register their interest. Table 4.15 provides examples of what it might cost a poor family in Nairobi for an average-sized plot without access to services for same sample type of construction.

<table>
<thead>
<tr>
<th>Type of construction</th>
<th>Land Purchase Price</th>
<th>Construction Cost</th>
<th>Additional Expenses</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>25 by 55 plot of land with 1 mud and wattle room and no services</td>
<td>897USD</td>
<td>385USD</td>
<td>118USD</td>
<td>1,400USD</td>
</tr>
<tr>
<td>25 by 55 plot of land with 1 stone room and no services</td>
<td>897USD</td>
<td>1,090USD</td>
<td>163USD</td>
<td>2,150USD</td>
</tr>
<tr>
<td>25 by 55 plot of land with stone basic unit with 2 rooms and services connections</td>
<td>897USD</td>
<td>2,564USD</td>
<td>339USD</td>
<td>3,800USD</td>
</tr>
</tbody>
</table>

*Source: Author, 2015*

The additional expenses column approximates the costs relating to the registration of the property (4 percent stamp duty, 1 percent surveyors costs, and legal fees) and construction-materials transport. Whereas the totals presented in Table 4.15 will vary from location to location, they provide a useful benchmark for assessing affordability, especially when compared with household income. In terms of household incomes, like for the Huruma slum, one of the
case studies, average income levels and monthly household expenditures is indicated in Table 4.16 in subsequent illustrations.

By calculating how long it would take the average household outlined in Table 4.17 to pay for the land and housing costs, one can determine affordability. Assuming that a household continues to rent and has on average $8 available each month for saving or loan repayment, it becomes clear that even for a one-room of mud and wattle construction outside of Nairobi, the family would have to save for seven years before accumulating sufficient funds to complete this basic purchase and construction. In terms of borrowing, a poor family with only $8 a month available for repayment could not qualify for any loan at commercial interest rates (> 14 percent per annum) to finance the complete construction of any of the housing options described above. This household could only afford to borrow for a complete housing solution if loans with a 24-year term were available at heavily subsidized interest rates (see Table 4.17).

Table 4.16 Estimate Household Income and Expenditure for Urban Poor Households for all cases studied

<table>
<thead>
<tr>
<th>Income/ Expense Category</th>
<th>Monthly Income / Expense in Kshs</th>
<th>Monthly Income / Expense in USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>House Income</td>
<td>5,000 – 6,000</td>
<td>65USD – 78USD</td>
</tr>
<tr>
<td>Food Expenditure</td>
<td>2,500</td>
<td>32USD</td>
</tr>
<tr>
<td>Rent</td>
<td>700</td>
<td>9USD</td>
</tr>
<tr>
<td>Transport</td>
<td>1,000</td>
<td>13USD</td>
</tr>
<tr>
<td>Public Toilet Fees</td>
<td>200</td>
<td>3USD</td>
</tr>
<tr>
<td>Water</td>
<td>250</td>
<td>4USD</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td><strong>4,650</strong></td>
<td><strong>61USD</strong></td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td><strong>350 - 1,350</strong></td>
<td><strong>4USD – 17USD</strong></td>
</tr>
</tbody>
</table>

*Source: Author, 2015*
At first glance, Table 4.17 seems to indicate that an average poor household cannot afford to acquire the land and build a one-room mud and wattle structure and, therefore, that the key obstacle in the enabling environment for housing for the poor is not land, building codes or provider issues, but affordability. This initial analysis seems to suggest that housing loans for a complete unit (land and basic structure), offered on a commercial basis (>10 percent interest) are not viable for poor households. This logic is often used to justify creating grant programs or subsidized-housing programs for the poor.

**Progressive Build vs. Complete Construction:**

All of the calculations in Table 4.17 assume initial construction of a complete home. Poor households, however, typically build their homes progressively. Although a family has insufficient income to qualify for a long-term loan, they often can, as illustrated in the analysis below, qualify for short-term loans for partial constructions.

**Replacing Rental Expense with Rental Income:** Table 4.16 also assumes that poor households require a completed structure before they can move into their property. In reality, poor households often leave their rental unit to free up that monthly expense to investment in their
own housing asset, even if it means living in a temporary shelter on their own property. In addition, poor households could continue to live in a temporary structure and build more permanent rental structures for income. As outlined above, these common behavior was noted help increase households’ capacity to save or repay, making housing solutions more affordable.

**Reducing Land and Construction Costs:** In addition to progressive building and eliminating rental expenses, every $8 reduction in the cost of the housing solutions above reduces by a month the time required for a household to save. Low-cost building technologies, such as those developed by Practical Action, can lower construction costs. Similarly, if land could be acquired and sub-divided more easily with fewer fees and delays, the land component of the total cost might be reduced significantly. Hence positively impacting on the affordability equation for poor households and create possibilities for a housing finance market as explained in the following paragraphs.

As illustrated in Table 4.16, financing a complete construction is beyond the reach of most poor households. However, most households build their home progressively. Instead of several thousand dollars, a family may only need several hundred dollars to get started. For example the one-room stone construction in Nairobi highlighted in Table 4.15 costs $2,150 to build. With a net income of $8 per day, an average household would not qualify for a commercial loan and would have to save steadily for 14 years to accumulate this amount. However, if the construction is divided into parts, it becomes affordable.

The researcher established that through savings, poor households can reduce the time required to finance land acquisition and construction of a basic stone room from 14 years to 9.5 years, if they are willing to live in provisional housing on the purchased plot while they save for the construction. Borrowing can further reduce the time required to achieve a basic, permanent structure. Borrowing $300 at 25 percent annual interest to purchase the plot allows a household to move out of their rental housing immediately and use the reduced expense to repay the loan in less than two years (23 months). The same household could then borrow $500 for 44 months to partially construct a single stone room in which to live. At the end of the 44 months, a subsequent loan for $680 for 58 months would allow them to finish the construction in just over
five years. The total time from initial construction to final loan repayment would be 10 years, four years earlier than if they would have saved to purchase land and construct the same home. If the household rents out the structure and reduce costs on transport, they can complete repaying the loan in less than eight years using the rental income and saving from reduction in transport cost to repay the loan.

To further cut down on costs for construction and hence reduce, the time taken to repay the loan, households could employ new initiatives in the market that include use of ESP house production. The new construction materials could reduce the cost of housing construction by between 30% and 50%. A few private sector players have also been active in the provision of building technologies that make housing more affordable.

**Conclusion of Household Issues that impede provision of affordable housing to urban poor**

The study revealed that components of the enabling environment restricted poor households in the process of acquiring land and/or building a structure. However, even if land is available, a clear process for achieving land security in place, building codes are modified to allow for alternative constructions, and political interference is minimized, a market for housing microfinance will still fail to emerge if households cannot afford the land and buildings they want to acquire or build.

Limited income, particularly relative to the high cost of land, construction, and installation of services, is the main obstacle in creating a housing finance sector for the poor. The traditional housing finance approach of providing long-term mortgages for completely built homes cannot overcome this obstacle. However, the failure of this approach does not mean that affordability is insurmountable, or that housing finance for the poor can only succeed with large subsidies. Rather, by responding to how poor households currently overcome these obstacles—by building progressively and maximizing income generation from the assets that they have as they acquire them - Government and financial service providers can provide appropriate environments, both legal, political and regulatory, that enhance incremental building for housing acquisition by the urban low income households in Kenya.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary
This research investigated the progress being made by housing microfinance (HMF) for the urban poor in Kenya. It aims at studying, better understanding and lobbying for the sector. The researcher firmly believes that it represents a critical ingredient to solving the problem of housing for the urban poor, because it examines how the majority of the poor urban households acquire housing; that is incrementally and through processes of self-build.

The NCHF models are traditional informal systems built around group-based savings mobilization that are becoming the focus of formal MFIs looking to promote their own financial sustainability and faced with various problems in dealing with the poor, for instance, difficult enforcement rights. They see the use of group peer pressure for loan recovery and repayment as being more effective way in substituting for asset-based collateral, which is difficult to recover.

The models clearly demonstrate that formal licensed MFIs benefit from interacting with informal players through the savings mobilization methods developed by informal savings collectors which have been widely replicated. While at the same time, informal savings groups that place their deposits with MFIs become part of the savings mobilization effort of the latter. In fact, by netting the resources of the poor, they are capturing funds that would otherwise lie outside the formal financial systems.

There have been some notable and encouraging advances in the industry with a steady trickle of new commercial entrants into HMF. Banks, microfinance banks and general microfinance lenders are introducing it, in various shades, as a product within their lending portfolios. Some continue to expand this offering to more and more clients. New entrants are a sign that HMF is still seen as a viable commercial lending operation.
The lending activities of less commercially orientated organisations such as housing cooperatives and the NGO sector continue to grow in recognition of the demand and need among lower income earners. The activities of these organisations offer an important contribution to HMF practice in their willingness to take on higher risks, as well as engage with downstream processes such as the house building process itself. They serve as an important repository of knowledge and lessons in this new industry. Further, more and more funding is coming on-stream in the form of grants, loans, equity, as well as technical support, as the sector increasingly becomes an important investment destination. Yet, true large scale lending in HMF is yet to happen, and demand is still largely unmet. The potential for the industry still remains largely untapped.

There is no denying that there are challenges. There has been a decline in some commercial lending activities. It is important that the reasons for this are determined. The constant need for engagement with the state on critical issues around land administration, management and provision of infrastructure remains. Indeed Government policies are still largely at best ignorant, or at worst openly hostile to incremental housing processes. These challenges will remain hurdles that need to be overcome, given that HMF is essentially about the housing process, and these elements are intricately tied to it. Finally, practitioners are increasingly coming together to address these problems collectively and an encouraging sign is that the industry is becoming more coherent and forceful as it pushes its own unique agenda.

The creation of appropriate systems of land use administration, management and tenure security that facilitate HMF still requires greater work and lobbying in Kenya. This includes legislative and policy reform to allow for and even encourage incremental build. Threats to tenure security often kill off any self-build and incremental housing initiatives by urban poor households. Other areas include removing threats to tenure security such as evictions, and the provision of incremental tenure and step-by-step acquisition of land rights recognized by laws and statutes.

There has been some gains in this respect. Important legal precepts around evictions as enshrined by international human rights law have gained recognition and legal entrenchment done in
Kenya. Nevertheless the need for reform to land administrative systems in Kenya, to make them more credible, accurate, and free from corruption remains.

Nevertheless HMF lenders have adopted localised pragmatic responses that help them manage these regulatory burdens. These include for example, negotiations with local authorities for approvals and appropriate standards. Lenders such as Kixi Credito’s in Angola have included as part of their activities, lobbying for access secure tenure. Select Africa on the other hand is an example of flexibility on the type of tenure acceptable, by recognising tribal rights to land. Indeed most dwellers have some form of tenure security to the land they hold, and this is where HMF using its flexible lending methodologies and collateral substitutes fits in so well.

Another important area that needs engagement with the Government of Kenya is the issue of infrastructure for housing. There have been examples of successfully funded infrastructure for HMF developments in Kenya. However, the costs of development of such infrastructure, often partly off-grid, do increase the cost of the final development. Again, ways of working with the Government where the delivery of such infrastructure on a project by project basis where possible is necessary, although not always successful.

In South Africa, one policy change that is being pushed and is gaining some momentum is that part or the entire national housing subsidy is directed at providing plots of land serviced with the requisite infrastructure. The approach provides housing microlenders with an opportunity to provide an incremental housing finance product that supports self-build on these individual plots. There is some positive development in this regard. The National Slum Upgrading Program (NSUP) in South Africa, has set a national target for 400,000 households in well-located informal settlements to receive basic services and secure tenure by 2014. There have been suggestions that possibly, incremental forms of housing can be incorporated. This policy could be replicated in Kenya.

The models findings show that in Kenya, NCHF have been frustrated both by existing legal framework and Government policies. Unlike in South Africa and Botswana, Kenya has had no affirmative action policy to enhance availability of housing finance for poor households. The legal framework has made it very difficult for the providers to avail housing finance to the urban
poor. This is due to the stringent legal provisions imposed on the housing societies or NGO operations.

On the other hand, the beneficiaries of NCHF seem to be satisfied by the financial and technical assistance that they receive from the loan providers. However, the funds are in short supply due to lack of confidence by the formal financial institution in lending to the poor and high retail cost associated with small loans. The issue of loan guarantees and their role in facilitating the development of housing microfinance was found to be rarely used by commercial banks in Kenya. Even where beneficiaries have a guarantee, banks still carry out due diligence to determine creditworthiness.

The study revealed that for the poor, direct access to finance from banks is extremely difficult as they cannot provide security, administration costs of small loans are considered to be high and profit margins are perceived by lenders to be low. The legal and institutional environment for housing microfinance in Kenya was found to place significant obstacles in the way of poor households struggling to build a home of their own. From expensive land prices, serious problems with land security, to rigid financial services legislation, virtually every component of the enabling environment restricts, rather than encourages, both the potential demand and the potential supply of housing microfinance. Poor households have few options other than renting. Land is unaffordable and squatting is uncertain and only possible by paying protection fees to the local Chiefs. If the poor are able to access land, they are unlikely to be able to obtain legal title to it and consequently may face the real possibility of eviction. Finally, if they do build, they face high building costs, including the cost of installing basic services, restrictive building codes, and limited finance options.

The experience throughout SSA model cases and case study models in Kenya, demonstrate that the majority of urban poor households can only afford to house themselves incrementally, meaning that construction of a house usually lasts many years (between 8 to 11 years). The study demonstrates that small loans allow the poor urban household to see efficiency gains: he or she is able to construct a better dwelling, avoid wasteful processes such as using temporary materials which eventually must be discarded, avoid high maintenance costs resulting from poor
construction, and reduce the age of ownership, something not possible when own savings is relied on.

5.2 Conclusions
5.2.1 Conclusion of Models
From the findings of the models under the study and the various discussions on legislative and policy pronouncements that precede this chapter, it is important to note that previous aspects that frustrated the flow of financial support for housing the urban poor could be surmounted. Processes such as using temporary materials which eventually must be discarded, high maintenance costs resulting from poor construction, reduction of ownership age, are not possible when own savings is relied on. The study observed the following factors in conclusion:

i). *That land security does not have to mean full, legal title*; but rather degree of confidence households have in their ability to build on their property without fear of eviction or having their construction demolished. Focusing on land security—rather than on legal title deeds—may allow Governments, donors, and potential lenders to develop creative solutions that allow the poor to develop decent shelter and, ultimately, to move towards full, legal title to a plot of land with an up-to-code home.

ii). *Mortgages are not necessarily the most secure guarantee*; Traditional banking wisdom argues that “mortgages are among the most secure and certain” of guarantees and are assumed to have lower loss rates. However, these assumptions are not true when trying to finance the housing needs of poor households. Even if poor households had titles to offer, the evidence suggests that using guarantees would, in fact, reduce portfolio quality. Institutions that only accept mortgage guarantees (either by law or by choice) tend to finance only completely constructed houses which require long term loans for the monthly repayments to be affordable. Few families, poor or middle-income, have no confidence in their ability to follow through on such a long-term obligation. The longer the loan term, the greater the chance that a borrower might lose his job or that her business would fail and therefore be unable to repay the loan, creating greater risk for the lender. In addition, the long, drawn-out foreclosure process and the weak market for resale of foreclosed properties often create situations where repossession costs
are more than the lender receives from the sale of the property. Lack of access to long-term funding sources, by financial institutions creates additional liquidity risk by financing long-term loans. Requirement of only full and legal titles not only limits housing-finance access to a small portion of the population, but also is likely to increase—rather than decrease—the risk in housing loan portfolios.

iii). **Progressive building decreases risk and increases affordability;** The study illustrates in chapter four how an average urban poor Kenyan household with a monthly net savings of $8 per month would not qualify for a long-term loan at commercial rates and yet the same household could achieve the same house in shorter period and pay off their debt within ten years and live in a partially completed unit as they progressively built. For a potential lender, progressive lending can convert an unqualified borrower into a fairly low-risk borrower. Recognizing that poor households will acquire land and then build over time, land-titling processes and building codes might be adapted to allow legal recognition for partially constructed units.

**Hypothesis Testing:**
It is noted by the researcher that shelter finance is very significant but not, on its own, a solution to housing problems. Despite the depth and complexity of the strategies considered here, inadequate provision of shelter cannot be resolved by finance alone. A repeated theme throughout the case studies, is the need for an integrated approach that includes opportunities for tenure security, the upgrading of services and the improvement of laws, regulations and policies. This is considered very explicitly as in Angola case, where there is the dual roles played by KixiCrédito and Development Workshop, the first providing finance and the second developing new models for land development and lobbying for pro-poor land policies.

Given the multiple layers of interacting constraints, it seems likely that combined financial and non-financial advocacy approaches will be necessary to break the current stalemate. The key point to note is that the microfinance methodologies and financial innovations were, and continue to be invented largely by private sector institutions, often without national or government or external donor support. The challenges faced by NCHF in Kenya are therefore largely statutory and policy-related.
5.3 Recommendations
Given the fact that MFIs and SACCOs have got a small deposit base and a small loan portfolio, they are well positioned to lend for such products (incremental building, etc) and best avenues should be explored on how they can do so. This is premised on the fact that low income earners prefer to remain in their current houses and progressively build on them than build/buy a house. They are not familiar with committing to long term loans for home purchase or construction due to their low repayment capacities. In addition, since most low income earners use their houses for business and dwelling, this approach will allow for incremental improvements on their houses without losing income from their businesses.

Small scale lenders (MFIs and SACCOs) should be promoted in addition to encouraging and facilitating them in carrying out programs that increase financial literacy among the poor population. Their capacities should be built to allow them engage in housing saving schemes, by encouraging and strengthening their capacity to engage in housing saving schemes that will later facilitate group housing developments. Technical assistance should be provided on how to register these groups legally, save regularly and efficiently repayment of loans, create income generating activities and how to identify other funding sources. A bridge can then be built between them and MFIs. The MFIs can later team up with commercial banks to boost their lending capacities.

The Government might consider developing progressive building regulations designed to reflect the way that poor people can and do build. For example, building codes and titling processes that provide initial approvals that are conditional on the household completing progressive improvements over time, would give lenders greater security in financing these progressive constructions, thereby eventually increasing households’ ability to live up to the building code standards.

Selecting the appropriate legal and regulatory structure is important for the success of NCHF. This should recognize that the various stages of construction will be carried out over many years as financial resources become available. For example, land purchase, service installation and construction and upgrading of shelters will all occur over time. Legislation that promote short-
term, small-scale loans would be more suitable for low income borrowers than long-term, large-value loans. The Government of Kenya should therefore create an enabling policy and regulatory environment for finance institutions that would provide suitable and sustainable housing finance services to the poor. The policies and regulations should allow progressive home improvement that guarantees security of their property. Policy debates regarding the enabling environment for micro-enterprise finance should focus on the financial services legislation and regulation adopted by the Government. Issues such as core capital requirements, depositor protection, usury laws, degrees of intermediation allowed, ownership structures, and institutional soundness and sustainability are seen as the key policy levers available to the Kenya Government to positively influence and control the development of the sector with building codes designed to reflect the building practices that most poor households use.

Although the development goals of governments, donors, and others may be to house all poor households in decent structures on their own land with access to basic services, it is important to recognize that all of these elements do not necessarily have to be in place at once. In fact, it is more financially viable for most poor households and their financial service providers to finance these improvements progressively. The Government of Kenya in addition should establish a conducive macroeconomic financial and regulatory framework for housing finance that promote set of policies and regulations that enhance incremental home acquisition; provide land, basic infrastructure and social services to the poor and the poorest; make land available to the poor, by servicing it with basic infrastructure such as water, electricity and roads, The Government should also build, and provide social infrastructure such as schools and health clinics; finally the Government should provide secure tenure for the poor by improving and recognising their existing tenure rights. This is key in enhancing security and stimulating improvements in housing and living standards. According to Harvard researchers, as property owners, households are willing to invest larger percentages of their income – over 30 per cent– to acquire land, build or improve their homes. Conversely, they will spend less – no more than 15 per cent of their income – on shelter without some assurance regarding security of occupancy as owners or renters.
5.3.2 Recommendations to Funding Partners

The lending activities of HMF that originated as NGOs and non-profits continue to grow. They are an important component to HMF because they deliberately cater for much lower income earners, something which other more commercially orientated lenders do not necessarily do. While commercial HMF lenders as a first point of entry target regular income earning people such as civil servants, the NGOs are non-profits oriented and are more open to a wider range of often less well to do clientele where affordability challenges are more acute. It is precisely this kind of practice and experience in these lower income segments that is critical to scaling up HMF on the continent for the urban poor households. Non-salaried people with small business and irregular incomes provide the largest potential for growth. NGOs and non-profits lenders provide lessons and practices in lending to these segments that can be accumulated, understood and used to scale up HMF lending. In addition, their interaction with the housing process provides an important resource that can be harnessed for Construction Technical Assistance (CTA) for the more commercially orientated lender. Going forward, support and investment in these NGOs and non-profits needs to be sustained as a way of reaching poorer borrowers, but more importantly, as a way of understanding HMF better and establishing practices that can contribute to scaling up.

Construction technical assistance is now increasingly recognised as an important component to the lending process. Ways of harnessing this important ingredient of HMF, for example, entering into partnerships between lenders and the providers of such support are important strategy to greater lending and the creation of a good housing product. In addition, there is an immediate challenge of bringing down the costs of housing through cheaper and more readily available construction technologies and materials as in the case of Jamii Bora – Kisaju Kenya. This should be a priority for all involved in the industry.

Lending periods

Because housing is a durable good with a high capital cost relative to household income, its financing must be for a longer duration than loans for conventional micro-enterprises if it is to remain affordable. This longer maturity suggests that different benchmarks should be used to measure the portfolio at risk. In micro-enterprise finance, where loan terms of up to one year are
common, it is quite serious to have a significant level of arrears past the due date of, say, 30 days. The potential impact of such arrears on housing microfinance operations is less severe as the lending period is for a much longer duration. A related issue, therefore, has to do with the policy for writing off non-performing loans. For loans with short maturities, delinquent loans with payments more than 90 days past due date are classified, for accounting purposes, as “uncollectible”. A different yardstick would probably be more appropriate for housing microfinance especially for the urban poor households.

**Interest rates**

Micro-trading activities remain feasible even when the rate of interest is relatively high. Indeed, some traders are able to sustain their businesses in spite of borrowing from money lenders, often at usurious interest rates. Lending for housing cannot thrive in such an environment. For instance, when Kenyan mortgage interest rates increased to 31% in the late 1990s, portfolio performance declined as the level of delinquencies rose. Break-even lending interest rates, as argued by the World Bank (2006), should be lower for housing, reflecting the fact that the recovery of loan can be spread over a longer period.

**Loan recovery rate**

In Kenya, the loan recovery rate among best-practice enterprise microfinance institutions is about 98%. This level has indeed not been matched by conventional mortgage lenders nor by NCHF institutions in Kenya. It is arguable that the loan recovery benchmark for housing microfinance should be different from that applied to enterprise microfinance.

The funding partners should therefore engage in innovative approaches that promote policies that support those governments that seek to promote an enabling macroeconomic, financial policy and regulatory framework for housing finance for the poor. They should engage with locals with a proven track record as partners with emphasis on financial sustainability and portfolio quality as criteria for selection.

While public policy makers need to continue to focus on overall capital market development and provide funds for building institutional capacity. This will enable on-lending inform of grants or
cheap funds allocated to initial start-up costs, operating expenditure for limited periods and knowledge dissemination. The policies also should avoid conditions on funds that can (inadvertently) reduce the ability to experiment with housing finance by assisting in building institutions and capacity to deliver a wide array of financial services to the poor, and not to pre-determine or restrict the service mix they offer. Finally, there is need for greater dissemination of existing experience to allow practitioners to share experiences and emerging “good practices”.

5.3.3 Areas for Further Research

This subject requires further research to provide systematic information on: (a) bank and borrower behavior where loan guarantees are used to secure borrowing, (b) the rules and procedures that apply to guarantees, (c) the associated incentives and penalties.

Further there is need to support applied research and its dissemination to determine:

a) the profitabilities levels of Non-Conventional housing finance to stimulate the entry of more institutions,

b) the range and forms of security of tenure that microfinance institutions can use in lieu of mortgage guarantees for the provision of housing loans and also, the points of intersection between mortgage finance technology and microfinance lending technologies to improve product offerings and to reach a wider segment of poor populations, and,

c) the links between housing finance institutions local and national government initiatives. How public-sector/municipal-level service provision can help support and facilitate the work of housing finance institutions serving the poor, through supportive land and housing policies.
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APPENDIX I

QUESTIONNAIRE A

BENEFICIARIES

INDIVIDUAL MEMBERSHIP

Code……………

An Evaluation of Non-Conventional Housing Finance for the Low-income Urban Households in Developing Countries;

A Case of Non-Conventional Housing Societies in Nairobi, Kenya

Study Objectives

The study’s main objective is to basically appraise the existing non-conventional approaches to housing finance in Kenya. It will therefore strive to answer the following questions;

i. What are the available types of models applied as Non-Conventional Housing Finance (NCHF) approaches for low-income groups in Kenya?

ii. How is the legal institutions and credit environment under which these NCHF approaches operate in Kenya?

iii. What are the levels of performance of these NCHF approaches with respect to beneficiary satisfaction?

iv. What are the key lessons learnt that could help shape the pro-poor housing finance policies?

v. 

Informed Consent
As a good gesture to research ethics, I find it prudent that I ask for your consent. Consequently I am bound by the following:

a. Your responses will be treated with **CONFIDENTIALITY**

b. The study **DOES NOT** intend to associate any of the responses in this questionnaire with you or your associates or your firm.

c. **ANY** divulgence if so occur, will be my responsibility

By the above, will you accept to respond to the questions in this questionnaire?

01 Yes 02 No

**SECTION A: HOUSEHOLD ATTRIBUTES**

Q1. Respondent’s Attributes

<table>
<thead>
<tr>
<th>Sex</th>
<th>Age</th>
<th>Marital Status</th>
<th>Highest Education Level</th>
<th>Number of HH members</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Male</td>
<td>01 Single</td>
<td>02 None</td>
<td>03 None</td>
<td>04 None</td>
</tr>
<tr>
<td>02 Female</td>
<td>02 Married</td>
<td>03 Primary</td>
<td>04 Secondary</td>
<td>05 University</td>
</tr>
<tr>
<td>03 Separated</td>
<td>04 Divorced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>04 Divorced</td>
<td>05 Widowed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q2 Household Income

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Average Income per day/week/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td></td>
</tr>
</tbody>
</table>
Q3 Household Expenditure

<table>
<thead>
<tr>
<th>Main Expenditure Areas</th>
<th>Average Expenditure per day/week/month</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td></td>
</tr>
<tr>
<td>02</td>
<td></td>
</tr>
<tr>
<td>03</td>
<td></td>
</tr>
<tr>
<td>04</td>
<td></td>
</tr>
</tbody>
</table>

SECTION B: MEMBERSHIP

Q1. Which SACCO do you belong to? ............................................................

Q2. What were the requirements for being a member of the SACCO?
   i. .............................................................................................................
   ii. .........................................................................................................
   iii. .......................................................................................................  
   iv. .........................................................................................................
   v. ...........................................................................................................

SECTION C: ACCESS TO HOUSING LOAN

Q1. How much did you ask for? Kshs......................................................
Q2. How much was given to you? Kshs. .................................................................

Q3. Why the difference?

.................................................................................................................................
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Q4. What were the loan qualifications requirements by the SACCO?

i. ......................................................................................................................................

ii. .....................................................................................................................................

iii. .....................................................................................................................................

iv. .....................................................................................................................................

Q5. Were the conditions achievable?

01  Yes

02  No

Q6. Describe your feelings about the conditionalities set for the loan access?

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140
Q7. Was the loan affordable in terms of servicing it?

01 Yes
02 No

Q8. What assistance did you get in terms of loan?

01 Land (size) .................................................................

02 Technical support (design, construction etc)

03 Money (amount) .........................................................

04 Building materials

05 Other (specify) ...........................................................

Q9. Are you satisfied with the housing facility?

01 Yes
02 No

Q10. (a) If Yes, Explain

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........................................................................................................
........................................................................................................
........................................................................................................
........................................................................................................

Q11. (b) If No, Explain

........................................................................................................
........................................................................................................
SECTION C: CHALLENGES

Q1. Are you happy with this kind of arrangement?

   01 Yes

   02 No

Q1. What are the main challenges that you associate this kind of arrangement with?

   i. ...............................................................

   ii. .............................................................

   iii. ..............................................................

   iv. .................................................................

   v. .................................................................

Q2. What would you advice as the way forward to solving some of the typical problems with this kind of arrangements?

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QUESTIONNAIRE B

LOAN PROVIDER’S

Code……………

An Evaluation of Non-Conventional Housing Finance for the
Low-income Urban Households in Developing Countries;
A Case of Non-Conventional Housing Societies in Nairobi, Kenya

Study Objectives

The study’s main objective is to basically appraise the existing non-conventional approaches to housing finance in Kenya. It will therefore strive to answer the following questions;

i. What are the available types of models applied as Non-Conventional Housing Finance (NCHF) approaches for low-income groups in Kenya?

ii. How is the legal institutions and credit environment under which these NCHF approaches operate in Kenya?

iii. What are the levels of performance of these NCHF approaches with respect to beneficiary satisfaction?

iv. What are the key lessons learnt that could help shape the pro-poor housing finance policies?

Informed Consent

As a good gesture to research ethics, I find it prudent that I ask for your consent. Consequently I am bound by the following;

   d. Your responses will be treated with CONFIDENTIALITY
e. The study **DOES NOT** intend to associate any of the responses in this questionnaire with you or your associates or your firm.

f. **ANY** divulgence if so occur, will be my responsibility

By the above, will you accept to respond to the questions in this questionnaire?

01 Yes 02 No

**SECTION A: BACKGROUND**

Q1. Name of Organization .................................................................................................

Q2. When was this organization started? .................................................................

Q3. Was it registered as a

01 Company

02 Co-operative Society

03 Non-Governmental Organization

04 Community-Based Organization

05 Other (Specify) .................................................................................................

Q4. What are your main objectives?

i. ............................................................................................................................

ii. ...........................................................................................................................

iii. ...........................................................................................................................

iv. ...........................................................................................................................
Q5. What are some of the products you offer?

i. ....................................................................................................................

ii. ....................................................................................................................

iii. ....................................................................................................................

iv. ....................................................................................................................

v. ....................................................................................................................

Q6. What are some of the products you offer with regard to housing?

i. ....................................................................................................................

ii. ....................................................................................................................

iii. ....................................................................................................................

iv. ....................................................................................................................

v. ....................................................................................................................

Q7. Which ones are biased towards housing of the low-income group?

i. ....................................................................................................................

ii. ....................................................................................................................

iii. ....................................................................................................................

iv. ....................................................................................................................

v. ....................................................................................................................
(Discuss each product in this Q7. separately in PRODUCT’S CHECKLIST questionnaire for an in-depth understanding of how it is administered)

Q8. How do you identify the needs of the clients to tailor-make your products?

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SECTION D: LENDING CAPACITY AND INSTITUTIONAL INFLUENCE

Q1. How do you raise your finances from which you lend out to the low-income clients?

i. ........................................................................................................................................

ii. ........................................................................................................................................

iii. ........................................................................................................................................

iv. ........................................................................................................................................

Q2. (If borrowing from the Banks), what are the challenges associated with borrowing for the sake of building houses for the low income group?

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Q3. How does the existing legal framework (with regard to housing finance) influence your efforts towards providing finance to low-income households?

Q4. What are your targeted numbers for loaning per year?  

Q5. How many clients have so far lent to?  

Q6. Client categorization

<table>
<thead>
<tr>
<th>Socio-economic group</th>
<th>Number of clients so far</th>
<th>Default rate</th>
<th>Number of Units assisted to build</th>
<th>Minimum limit of loan</th>
<th>Maximum limit to loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
NOTE: This section discusses each product separately as indicated in Q7 of the Loans’ Provider Questionnaire

SECTION B: NCHF TYPOLOGIES

Q1. What is the name of this housing finance product? …………………………………………………

Q2. When did you launch this product? ………………………………………………………………………

Q3. What drove you into improvising it?

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Q4. What are its main features?

   i.  ……………………………………………………………………………………………………………………………

   ii. ……………………………………………………………………………………………………………………………

   iii. ……………………………………………………………………………………………………………………………
Q5. What are the requirements for a member to access this product? *(What are the lending conditions?)*

| vi. | ................................................................................................................................. |
| vii. | .............................................................................................................................. |
| viii. | ............................................................................................................................ |
| ix. | .............................................................................................................................. |
|x. | ............................................................................................................................ |

Q6. Who do you involve in the following stages?

<table>
<thead>
<tr>
<th>Stage</th>
<th>Actors you involve</th>
<th>How do you involve them?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conception</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Q7. Do you train your members in loan utilization?

01 Yes

02 No

Q8. If yes how?

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Q9. If No, why not?

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Q10. Is the performance of the product satisfactory?

01    Yes

02    No

Q11. Please explain your evaluation regarding the performance of this product in the market with regard to meeting the objectives for which it was set?

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Q12. Are there cases of defaults?

01    Yes
Q13. What is the ratio of the default to compliance of this product? ……………………………

Q14. What causes these?

i.  …………………………………………………………………………………………………

ii.  …………………………………………………………………………………………………

iii. …………………………………………………………………………………………………

iv.  …………………………………………………………………………………………………

v.  …………………………………………………………………………………………………

Q15. Is this product replicable?

01  Yes

02  No

Q16. If Yes, how do you promote the aspect of replicability in this product?

……………………………………………………………………………………………………

……………………………………………………………………………………………………
SECTION C: GENERAL CHALLENGES

Q1. What are the main challenges that you associate this kind of arrangement with?

vi. .................................................................................................................................

vii. ...............................................................................................................................  

viii. ...............................................................................................................................  

ix. .................................................................................................................................  

x. .................................................................................................................................

Q2. What would you advice as the way forward to solving some of the typical problems with this kind of arrangements?

........................................................................................................................................

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