Homeless International

BRIDGING THE FINANCE GAP IN HOUSING AND INFRASTRUCTURE

KENYA: NACHU - A Case Study

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CONTENTS

List of Abbreviations and Acronyms

NACHU	National Co-operative Housing Union
NGO	Non Governmental Organisation
UK	United Kingdom
YCO	Youth Charitable Organisation
USAID	United States Agency for International Development
HIV/AIDS	Human Immuno-Deficiency Virus AIDS
HFCK	Housing Finance Company of Kenya
CDC	Commonwealth Development Corporation
CBO	Community Based Organisation
NHC	National Housing Corporation
NSSF	National Social Security Fund
STD	Sexually Transmitted Diseases
NHC	National Housing Corporation
NCC	Nairobi City Council
K-REP	Kenya Rural Enterprise Programme
KCB	Kenya Commercial Bank
BBK	Barclays Bank of Kenya
SCB	Standard Chartered Bank
ILO	International Labour Organisation
KWFT	Kenya Women Finance Trust
MFI	Micro-Finance Institutions
NCCK	National Council of Churches of Kenya
IFAD	International Fund for Agricultural Development
GOK	Government of Kenya
GDP	Gross Domestic Product
NBFI	Non-Bank Financial Institution
UNDP	United Nations Development Programme
CBK	Central Bank of Kenya
SACCO	Savings and Credit Co-operative Society
USD	United States Dollar (US$)
WWB	Women World Banking
KSh	Kenya Shillings
WEDCO	Women Economic Development Company (CARE project)
PCEA	Pentecostal Church of East Africa
ITDG	Intermediate Technology Development Group
SISDO	Small Holder Irrigation Scheme Development Organisation
UNCHS	United Nations Centre for Human Settlement (HABITAT)
KUSCCO	Kenya Union of Savings and Credit Co-operative Society
PVO	Private Voluntary Organisation
AALC	African American Labour Centre
COTU	Central Organisation of Trade Unions
KNUT	Kenya National Union of Teachers
NISCC	Nairobi Informal Settlement Co-ordinating Committee

PREFACE

The consultant attended a six days research orientation organised by Homeless International in Yellamanchili, Andhra Pradesh, India, prior to carrying out this study. The orientation focused on the work of the Youth Charitable Organisation (YCO), a non-profit rural development organisation based in Visakhapatnam District of Andhra Pradesh, India.

The work in Kenya involved reviewing documents and publications by: the Ministry of Planning and National Development, Ministry of Lands and Settlement, Local Government, Department of Co-operative Development, World Bank, USAID, local banks and financial institutions, leading micro-finance institutions in Kenya, the NGO Council and discussions with staff of NACHU and members of the Bellevue community project.

I would like to thank all the staff of NACHU and particularly, the Acting General Manager, Mrs. Mary Mathenge for providing materials and information on housing co-operatives; Mr. Jim Onyango for assisting in data collection; Mr. Willis Odeck for editing the document and providing useful comments on micro-finance systems; and Ruth McLeod, Chief Executvie, Homeless International, for her guidance and support.

1. BACKGROUND CONTEXT

1.1 The Country

1.1.1 General

Kenya has a total land area of 569,259 sq. km, with a population estimated at 28.7 million in 1997. The population projection for the year 2000 is 30 million people. The annual population growth rate lies between 3.2-3.3% p.a., still one of the highest in the world. Average life expectancy is around 57 years but this is falling drastically with the spread of HIV/AIDS. The country is divided into 8 administrative provinces, with Rift Valley being the largest and Nairobi the smallest province. The Kenyan economy remains dominated by the agricultural sector although there has been a decline in production levels from 38% of GDP in 1963 to 30% in 1998. Principal exports include tea, coffee, horticultural products, petroleum products, cement and pyrethrum extracts, and are exported mainly to Uganda, Tanzania, UK and Germany. The major structural problems facing Kenya are poverty and unemployment.

Kenya like any other developing country has been experiencing rapid urbanisation. The urban population is currently estimated at over 15 million people. Rapid urbanisation has resulted in the proliferation of self-planned slum settlements in many urban areas. Major towns like Nairobi, Mombasa, Kisumu, Eldoret and Nakuru have tended to have a large share of this development. In such areas services are not 'officially' provided except for isolated cases, such as provision of water points.

1.1.2 Overview of Housing Policy for Kenya

One of the main objectives of the Kenya Government has been the provision of decent housing for its population in both rural and urban areas. According to the Kenya National Development Plan 1997-2001, the housing demand is expected to rise in the urban areas from 234,000 to 255,500 units annually during the plan period. Table 1 shows the projected demand and the estimated cost of meeting the stated demand.

Table 1: Kenya Housing Needs and Investments in 1997 and 2001

	1997			2000		
	Urban	Rural	Grand Total	Urban	Rural	Grand Total
Units ('000)	101.5	287.4	388.9	127.7	303.6	431.3
New Units	96.6	234.0	330.6	123.2	255.5	378.7
Investments (KSh Bln.) [a]	27.6	32.8	60.4	39.0	38.7	77.7
Fml Finance KSh Bln [b]	16.6	13.1	29.7	23.4	15.5	38.9
Infrastructure Investments (KSh Bln)	3.4	22.8	26.2	4.2	25.5	29.7

Notes: a-1995 prices, b-Assumes 60 per cent investments from formal sources in urban areas; 40 per cent rural areas. C-new units only; gross densities of 1,500 persons per hectare are assumed. Fml-Formal, Bln-Billion

Source: Republic of Kenya: National Development Plan, 1997-2001

The above table indicates that KSh 16.6 billion in constant 1995 prices was required to meet total urban formal financial needs in 1997 alone, rising to KSh 23.4 billion in 2001. This is in contrast to KSh 26.3 total commercial bank credit to private sector in 1995. Hence, formal sector resources are unlikely to cater for urban housing. Indeed, in the past, the formal sector has rarely provided more than 20 percent of the required financing for urban housing.[1]

1.1.3 Reasons for Poor Housing

Due to reasons explained below, the housing situation in both urban and rural areas has been deplorable with most housing units failing to meet minimum standards of durability, sanitation and space.

a) Finance: During the first five years of independence, the role of the Government was to encourage the private sector to build more houses and assist local authorities through the National Housing Corporation to expand their public housing programmes and the Local Government Loans Authority to finance associated off-site infrastructure. The Local Government Loans Authority is a statutory body under supervision of the Ministry of Local Government charged with the responsibility of on-lending funds from Central Government or from other sources to local authorities in Kenya.

To stimulate the private sector, the Government - in collaboration with Commonwealth Development Corporation - established the Housing Finance Company of Kenya (HFCK) at the beginning of 1966. The main objective of HFCK was to make loan funds available to people wishing to acquire their own homes in the main urban centres. Although an elaborate financial system has developed in Kenya since independence, the housing finance sector has not been able to adequately respond to housing needs of Kenyans in both urban and rural areas.

Mortgage lending by financial institutions goes mainly to middle and high income households and is concentrated exclusively to homeowners in the urban areas. Low-income households are unable to qualify for such loans due to stringent lending terms that include high qualifying incomes, high interest rates and short repayment periods. While the Building Societies lending rate has gone up from 14.5% in 1988 to 24.9% in 1998 an increase of almost 71%, the Commercial Banks deposit rates have declined by an average of 21% during the same period (Annex II).

b) Land: The high demand for land by competing interest groups i.e. Government, private sector, residential groups and individuals has pushed prices up. Public land is almost exhausted in urban areas while most of the available land is unplanned and has no basic infrastructure. Insecurity of tenure and the slow procedure of issuing title deeds for land converted from agricultural to residential use have been major handicaps.

c) Building materials: Building materials constitute the single largest input in construction and account for over 70% of the total cost. The high cost of building materials has limited the quantity and quality of housing stock produced in the country. During the period 1988-1998 the price of a 50 Kg. bag of cement, a major input in construction, increased by 397% (Annex II).

[1] Republic of Kenya: National Development Plan 1997-2001

d) By-laws and Planning Regulations: The current building by-laws and planning regulations have tended to favour high-income earners by specifying very high standards. The outdated building code regulations and zoning laws make housing expensive and encourage non-adherence to regulations. The Grade II by-laws, which were meant to be friendly to low income earners have not been adopted by many local authorities.

e) Enabling Legislation: The provision of housing in Kenya is not governed by one comprehensive Act of Parliament. Instead it is regulated by various Acts and delegated legislation, which include: the Local Government Act, Public Health Act, Building Society's Act, Town Planning Act and Housing By-laws formulated by various local authorities. In the process of planning, designing and implementing housing projects, delays are experienced because of the need to refer to the various Acts and delegated legislation. However, the approved Sectional Properties Act, which governs ownership of shared properties, has encouraged investment in high rise flats by private developers.

f) Capacity: Limited institutional capacity in both Central Government Ministries and Local Authorities and inadequate co-ordination of actors often lead to duplication of efforts. The Minister of Housing cannot direct any action in the housing sector because he has no legal powers. The present Housing Act Cap 117 covers only operations of the National Housing Corporation. The new Housing Act under review covers the operations of other housing agencies and organisations. This is intended to strengthen the role of the Ministry in facilitating stakeholders to increase their housing production capacities.

1.1.4 Government Plan to Combat the Housing Problem

An Action Plan - prepared in 1995 by the Government in consultation with the local authorities; private sector, CBOs and NGOs - set in motion the following strategies meant to alleviate the shelter problem. Most of these plans were to be achieved by the year 2000, and indeed some have already been achieved.

a) Infrastructure Provision

By January 1998, the Ministry of Housing and Settlements was to have in place a comprehensive long-term plan for upgrading all the slum and squatter settlements in major municipalities. This was to be based on experience gained from one of the slum rehabilitation Programme called the Mathare-A4 Scheme in Nairobi being implemented by the Catholic Church with financial assistance from Germany. According to the Ministry of Local government a comprehensive plan is already in place, but implementation has been hampered by lack of funds and lack of alternative land on which to reallocate those displaced.

The Ministry of Local Government is implementing a plan of action to reconstruct dilapidated residential infrastructure in informal but permanent housing estates. The Kenya Government is one of the recipients of the *El Niño* emergency funds from the World Bank and other donors for the repair of infrastructure damaged during *El Niño* rains. A number of city streets including those in informal settlement areas (e.g. Kibera and Majengo) have been repaired. The work is on going. The World Bank also provided funds for improvement of water supply to residents of Nairobi including installation of water kiosks in the slum areas.

b) Land Issues

The Ministry is also considering the following: institutionalising an ad-valorem tax on urban land based on its market value as a means of reducing speculative land purchases; reviewing zoning laws and land use regulations to ensure they conform to market conditions; and producing a comprehensive land use and housing policy based on needs for rural-urban balance, industrialisation and urbanisation.

According to a 1998 report on Urban Land Tenure by Intermediate Technology Development Group (ITDG), the Government has to subsidise the cost of land because most households cannot afford the full repayment costs for public land. The increased demand for land by the low-income groups has led to the emergence of various formal and non-formal developments such as illegal and non-authorised subdivisions. Such developments offer plots at prices affordable to the lower income groups and are usually done by specialist land agents that bypass official planning standards and complicated bureaucratic procedures. In 1999, the Government established a Commission of Inquiry into the land systems in Kenya that will review land tenure and land use policies in both urban and rural areas.

c) Institutional Capacity Building

Staff capacities are being built at both central and local government levels. The Public sector has been reorganised to allow NGOs and CBOs to fill in institutional gaps. The Government is currently under pressure from the World Bank and IMF to cut down the size of the civil service including the local authorities. A number of changes have already been made at senior levels. Participation of CBOs and NGOs has been encouraged in all sectors. This is evident by the relaxed NGO/CBO regulatory framework (see section 1.4).

d) Environmental Issues

The National Environmental Action Plan policies with respect to legislation, institutional framework and linkages are now incorporated in the new Housing Policy, which is still under discussion.

e) Other Government Actions

In addition the following have been undertaken:

- Preparation of the National Housing Development Programme up to the year 2010.
- Revision of the National Housing Policy in order to respond appropriately to current needs.
- Revision of Building By-laws and Planning Regulations in liaison with the relevant Ministries and Agencies.
- Enactment of the Sectional Properties Titles Act.
- Formation of Nairobi Informal Sector Co-ordinating Committee.
- Registration of Shelter Forum.

Nairobi Informal Settlement Co-ordinating Committee (NISCC) was formed in March 1996 under the aegis of Nairobi Provincial Commissioner. The committee comprises of all key players in the housing sector from government, non-governmental organisations and donor agencies. The main objective is to be able to co-ordinate all development activities in the City's informal settlements. The Committee has already produced an Informal Settlement Development Strategy that outlines the policies and implementation framework to be used for development within the informal settlements. The Nairobi District Development

Committee and Nairobi City Council (NCC) have adopted the strategy document. The City Planing and Architecture Department of NCC co-ordinates the activities of the development strategy on behalf of the Council.

The Committee which meets monthly, caries out its work with assistance of the four following sub-committees:

- housing, land tenure, physical planning and infrastructure;
- environment, health and sanitation;
- education; and
- income generating activities, employment and skill development.

The vision of NISCC is for both the central government and the city authorities put in place poverty eradication strategies and mechanisms to achieve socio-economic development which will:

- directly benefit the poor;
- improve the access of the poor residents to the means to achieved increased productivity;
- improve access of informal settlement residents to improved infrustructural services, shelter and a healthier living environment;
- increase access of the poor to educational and training opportunities; and
- ensure environmental sustainability.

Shelter Forum was established in 1990 and registered as an NGO in 1995. It is a coalition of institutions and individuals concerned with pertinent shelter issues. To date it has 600 key actors in shelter, 38% of these being community based groups. Its four major programmes include research, advocacy, extension and networking. The key issues it aims to address are:

- inadequate building by-laws;
- standards and regulations which severely constrain shelter development, particularly in low income urban environments;
- controversial land policies that lead to irregular and unfair land allocations at the expense of the majority of the poor and critically affect shelter development in urban areas through evictions and demolition of informal settlements;
- inadequate policies on housing rights, specifically those that fail to protect the rights of women, children and other marginalised groups to decent and affordable shelter; and
- poor information flows among institutions and individuals on building technologies and techniques, approaches and options in shelter.

The Government hopes that the above measures will provide incentives for the private sector to mobilise resources and to invest in housing sector.

1.2 Nairobi Province

1.2.1 General

The city of Nairobi, Kenya’s capital, started as a railway camp in 1899 and soon became a centre of communication, administration and commerce. Over time the town grew in size and function to become the major city in East Africa. Nairobi’s current population is about 2 million (1993). Between 1979 and 1989 its rate of growth was about 4.5 % p.a. While this has declined from its peak of 7.1 % between 1969 and 1973, the rate is still high. Nairobi’s urban district covers an area of approximately 30 square kilometres. Nairobi City Council provides infrastructure services within these areas. Nearly 45% of Kenya's urban population live in Nairobi, thus straining Nairobi's social and physical infrastructure as well as the ability of Nairobi City Council to finance and maintain such services.[2]

1.2.2 Housing and Infrastructure Conditions

Over 55% of Nairobi's residents live in either the slums or unplanned settlements. It is estimated that the informal population in Nairobi is between 50-70% of its almost 2 million inhabitants. Population growth in the slum areas is estimated to be 4-6% p.a. Virtually all planned and fully serviced estates were developed during the colonial era or within the first 15 years of independence. According to the estimates by the Ministry of Housing and Settlements, of the 234,000 housing units needed annually, almost 50 per cent are needed in Nairobi. However, less than 4% of this requirement is provided for, and it is a long time since the city government developed residential houses. Estates like Dondora, Umoja, Kibera, Zimmerman, Githurai, Majengo, Korogocho, Mathare, Kariobangi North, Kayole, Njiru, Ruai, Kawangware, Riruta Satellite are the manifestation of unplanned policies.

Nairobi has been affected by the rural urban migration, increasing numbers flock to the city in search of income and better livelihood. Because of these high rates of migration, informal settlements in Nairobi currently located in Makadara, Kibera, Kangemi, Westlands, Embakasi and Pumwani have grown rapidly. The production of low cost housing which is affordable to low income migrants has not kept pace with demand due to high building standards required by the local authorities, a scarcity of appropriately zoned land, and development bias towards middle and upper income groups. Land tenure and tenancy in these settlements differ according to each settlement's historical development. Some people are illegally squatting on government land or below electric power lines behind industries. Others have built cluster of huts within original large farming estates annexed by the City Council when reallocating the squatters or after fire breaks. There are also areas that were temporality leased by the government during the colonial era and whose ownership is still unclear.

With high population growth in the slum areas, the population density is also very high. In some areas, a plot of 25 by 75 feet has as many as 25 rooms. Often, a family of 4-5 people occupies each room. The average income in the slums is KSh 500 per month, which is below the official poverty line[3] of KSh 980 for rural areas and KSh 1490 for urban areas. There are however, a few rich people who have high income from illegal trade such as smuggling, prostitution, and illegal brewing. The majority of residents are self-employed in petty trading or casual unskilled work. Trading or hawking in small kiosks along the paths are the main occupation. Those employed are working mainly as clerks, messengers, drivers, and watchmen in city offices. Many residents, mainly women and youth, are unemployed. In nearly all areas, individuals fetch tapped water from nearby settlements and sell it to the informal residents for between KSh 3-10 per 20-litre container. Waste is disposed of by throwing it outside the structures, few have dug pits used as garbage collection points. The City Council is unable to cope with the garbage collection. Toilet facilities are inadequate, it is not uncommon to

[2] World Bank: Kenya Impact Evaluation Report. Development of Housing, Water Supply and Sanitation in Nairobi, 1996.
[3] Poverty line established by the Kenya Government in 1994

see open areas used as toilets, causing a serious health hazard, particularly during the rainy season.

All slums have temporary roads and numerous footpaths, except for Kawangware, which has tarmac roads. Vehicular access is limited due to rough terrain and closeness of the houses. Although transportation to the city centre is easy, as most slums are adjacent to areas well served by public transport system, 50% of slum dwellers walk to their places of work, as they cannot afford the high transport costs.

There is no electricity to the individual shack structures although some areas have street lighting. Numerous private clinics can be found around the slum areas, many offering services at unaffordable rates. The nearby City Council health facilities, which could offer subsidised health services, are often without drugs and are overcrowded due to acute shortage of clinical personnel. Those who can afford to, use private doctors and clinics, but most cannot afford such care. Consequently, many die from common diseases which could otherwise be treated such as diarrhoea, acute respiratory infections, STD, malaria etc. Most of the adult residents aged over 50 years are illiterate while most youth attain only primary level education due to lack of proper educational facilities and their parents' inability to afford uniforms, books, etc.

The houses comprise of various categories and sizes. Some are made of mud, others are flattened tin or cardboard and some are mud, and wattle covered with plaster or corrugated iron sheets. The average room size is 10x10 ft. The dwelling conditions are often poor with no ventilation and generally overcrowded. Even with these poor conditions people are willing to pay high rents, as they are the only source of cheap shelter. Rents vary from KSh 80-500 p.m. depending on the condition of the building and the quality of the construction material used.

1.2.3 Historical Evolution of the Slum Settlements in Nairobi

The poor housing conditions in many urban areas in Kenya may be partly explained by the housing policy which Kenya pursued before independence. The colonial Government did not expect Africans to be permanent residents of urban areas. The Africans working in urban centres were also not expected to bring their families along, except where such individuals were also employed. For this reason, accommodation offered provided only bed spaces for families and/or individuals. This policy in a way set a precedent for poor housing, especially for low-income groups.

Local by-laws prohibited Africans from living in residential areas zoned for Europeans. During the first twenty years of the century, all Africans lived in unregulated settlements, 'in many ways more like villages than urban suburbs (Bujra 1973:10). However, these were gradually demolished and both landlords and tenants were obliged to live in a demarcated 'Native Location'. One such place was Pumwani (a place of rest).

The Pumwani settlement was established in 1922 for Africans and Arabs to rent plots from the Municipal Council and to erect lodging houses out of traditional materials. During this period, many Africans were still living in Pangani, which was also an informal settlement. In 1938 Pangani was demolished and Africans had to move elsewhere. One of such areas that African moved to, was Mathare, which by 1950 had about 5000 people. This was one squatter area that was quite resilient. Several times the residents were expelled but gradually returned. It also became an area where squatters who had been expelled from other areas found refuge.

The other old slum squatter settlement within Nairobi is Kibera. The origin of this settlement dates back to 1912 when the ex-soldiers who were mostly Nubians were settled in the area. Apart from the original settlements, other villages have been built since 1956. The original settlers (Nubians) were only given resident permits with instructions that the houses must be built of temporary materials. This was because the colonial Government had plans of developing the area. By 1993, the settlement was estimated to have about 248,000 inhabitants living on a territory of 225.6 hectares.

Apart from the earlier informal settlements enumerated above, other new informal settlements have developed since the 1970s. These include Korogocho, Soweto, Kayaba, Kangemi, Kariobangi and Kawangware among others.

1.3 Low Income Housing and Infrastructure

1.3.1 Housing Policy and Delivery System

The Ministry of Housing estimates that currently Kenya needs 234,000 housing units annually, a third of which is required for urban dwellings. Both the public and the private sector provide less than 20% of the required housing units in the urban and rural areas. Inflation, which has forced up the prices of building materials, makes the housing situation worse. The month-to-month overall inflation rate increased from 7.2% in September 1999 to 8.2% in October 1999. A substantial proportion of this rise is due to the increase in food prices. The price of a one-kilogramme tin of maize, the main staple food for low-income families, has doubled in the last ten years (Annex II). Infrastructural costs i.e. sewerage, roads and street lighting make up about 45% of the total house cost. These costs which were hitherto provided by the local authorities, now have to be fully absorbed by the house purchaser. Housing need in Kenya has been treated lightly, arising from the assumption that the strained economic resources should be used to develop more productive areas like health, agriculture and education. This has resulted in a housing deficit that has reached intolerable proportions. There is no doubt that the housing problem has been one of the major causes of growth of slums and the accompanying insecurity.

The current housing policy in Kenya stems directly from Sessional Paper No. 4 of 1986, “Economic Management for Renewed Growth”. This together with the National Strategy for Kenya, 1987-2000 and the National Development Plan 1997-2001 provide Government direction in the provision of shelter. The policy document had predicted tripling of resources for housing during the strategy period, the bulk of which was to be directed towards small towns, sub-urban settlements and rural shelter improvements. The amendment to the Banking Act 1993, together with the review of Building Societies and specialised Housing Finance companies, was to instil much-needed stability into the financial system. The combined effect of new financial stability, reduced government borrowing, flexible interest rates, and a more positive attitude to the finance sector was expected to yield a desired effect of greater financial flows into housing development. This has, however, not been the case.

The housing policy also contained proposals for reorganisation of government agencies to accommodate greater participation of the private sector, namely, individuals, companies, co-operatives, and community groups in the shelter production process, than before. In line with the government policy of decentralisation, known as District Focus for Rural Development, the policy called for preferential treatment to rural housing, to housing needs in small towns, and the potential contribution of the informal sector in the shelter production process.

The government's own contribution to the housing sector has been minimal, with less than 1% of the national budget being allocated to support housing projects. In the area of construction and building standards, the Government is asking local authorities to adopt the revised byelaws as a matter of urgency, in order to reduce the cost of housing and improve access to housing by low income families. The policy also urges the finance sector to adopt the same byelaws for purposes of credit underwriting. The private developer is encouraged to invest in low income housing and in low rental housing, as these are the areas of greatest distress.

Sessional Paper No. 1 of 1986 made some important points regarding Government's role in housing. Of special mention is the call for local government to work with private developers in sub-dividing land, the acceleration of the regulation of land tenure among existing sub-divisions, and charging market prices for government-developed or operated sale and rental housing.[4] It is notable, however, that:

- although the government has continued to define its role as that of assisting low income households obtain adequate shelter, in the early 1970s and 1980s the emphasis was mainly site-and service schemes; the Dondora project was one of the earliest World Bank sponsored site-and–service schemes; although initially viewed as very successful, further schemes were abandoned when it was realised that the beneficiaries could not raise sufficient funds to upgrade their sites, which as a result were quickly bought out by rich landlords;
- while some attention has been given to upgrading and expanding housing facilities in rural areas, the most government effort has been directed to the urban areas;
- the private sector played a major role in delivering housing to middle and high income earners in urban centres particularly in Nairobi in the 1980s and early 1990s[5].

1.3.2 Government Involvement in Housing Delivery

a) House Construction and Maintenance

Housing is financed and supplied through a number of channels, including the Ministry of Housing, the National Housing Corporation (NHC) and local authorities like Nairobi City Council. Funding for the development of housing comes from national appropriations or external assistance, and it is generally channelled through the NHC. Nevertheless, the local authorities are the main actors in the housing arena. They take over projects developed by the NHC, both site-and-service schemes and rental complexes, and also control the building standards used in their areas. In the larger cities, local authorities

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[4] Raymond J. Struyk and Piet Nankman. The Urban Institute, Developing Housing Strategy for Kenya: Recent Housing Production. Market Developments and Future Housing Needs.
[5] USAID, Kenya: Private Sector Housing (615-HG-007)

handle their own project development; in the smaller towns the NHC takes on the task on behalf of the authorities.[6]

All development with government funds is carried out with considerable subsidies - below market interest rates on loans and no charges for land. Where donor funds are involved, interest rates are higher and are geared to the borrowing terms but still remain below local market rates. This is because donor-supported projects (World Bank and USAID) were meant to encourage private sector participation in housing. The Government was therefore encouraged to lend the funds at near market rates. Local authority-owned and managed rental housing charge rents considerably below those on comparable private units. Local authorities do however, exert considerable effort to collect the rents and mortgagee payments due. However, despite their considerable success with collections in smaller towns, local authorities, including Nairobi City Council, have had a very poor record in repaying loans to the NHC. In Nairobi, the NHC has already repossessed some of the estates originally managed on NCC's behalf because of this poor performance.

b) Land Administration

Land administration is under the responsibility of the Commissioner of Land, who heads the Lands Department in the Ministry of Housing and Settlement. The Commissioner of Lands handles the alienation of public land for housing projects, controls the sub-division and titling of private land, the registration of titles and deeds, and is in charge of valuation for fiscal purposes. Responsibility for land use, control and town planning is shared between the Commissioner of Lands and Physical Planners at the local and central levels. Nairobi and Mombasa have their own town planning departments and the physical planning departments, while the Ministry of Housing and Settlement provides assistance to other local authorities.

Land ownership is governed by a system of rules and procedures, otherwise known as the land tenure system which states how land may be owned. There are two types of law governing land ownership in Kenya: modern or statutory, and customary laws. Customary and traditional laws govern communal land ownership. Statutory laws indicate how land may be owned individually or collectively based on adopted Western European law.

Land may be government or trust land – administered by the various county councils for the benefit of those who reside on the land. Private land may be leasehold or freehold and owners may be individuals or groups. Land is expensive and a most precious property for most Kenyans. Land registration is done under the Registration of Titles Act 1918 and the Registered Land Act 1963.

It is illegal to appropriate or settle on someone else's land without permission. In the case of public land (belonging to the government or local authority), one may secure an informal allocation from the local Chief or District Officer. This is adequate for purposes of building but it does not guarantee that the builder will ultimately get a registered title to the land. Private land in urban areas is subject to a local tax known as rates. In addition, owners of leasehold plots must pay an annual land rent to the landlords.

[6] Garddner et al., op cit.

c) Infrastructure

Responsibility for urban infrastructure and services lies with the local authorities and with the Ministry of Water Development which operates the water supply and sewage networks in towns, where these are not run by the local authority. Kenya Power and Lighting has the monopoly on electricity generation and supply, although there have been recent efforts to privatise the power generation component.

d) Building Byelaws

Attempts to review standards for low income housing in Kenya were made in the 1980s and early 1990s but without much success. It was not until 1993 that flexible standards, which allowed the use of inexpensive building materials and techniques applicable to low-cost housing, were published. They were gazetted in July 1995, and have since come to be known as Code '95. Most local authorities have not however, adopted these standards.

1.3.3 External Support

a) General

The government has not succeeded significantly in getting private financial intermediaries involved in making mortgage loans for its projects. Local authorities have been inflexible in lowering building standards, even on donor-financed projects, private developers are generally unable to use the lower standards applicable to government projects and, despite some recent innovations, there is little public-private co-operation in the development of serviced sites or units for lower income households.

Two innovative techniques used in the past include:

- the World Bank Secondary Towns Project. Here local authorities provided infrastructure services to government-owned land, which seemed to speed up the development process for moderate to lower income housing; and
- the USAID Housing Guarantee Project.

b) USAID Housing Projects

The USAID support covered the Third Nairobi project, Umoja II, the Small Towns Shelter and Community Development Programme and the Private Sector Low Cost Housing Programme. The last two were supported by grants funded from Development Assistance and housing guarantee fee income. The Umoja II and Small Town Programme were both authorised in late 1980. The early projects funded under the bi-lateral USAID-Kenya Housing Guarantee Programme include the Kimathi, Umoja I and II housing estates. Over 7,000 housing units were provided in the Umoja I and II estates.

The housing projects constructed with funds from these aid agencies were meant to benefit the lower income groups living in the urban areas, through cheap mortgage, tenant purchase schemes, site-and-service or rental schemes. While these efforts did provide additional housing in the market, many did not benefit the intended target groups and, even where they did, the impact was minimal given the level of existing demand. The site-and-service schemes and slum upgrading projects that followed were meant to help speed up the housing delivery process and access infrastructure to those living in overcrowded unplanned settlements. However, none of the projects involved the targeted beneficiaries in the planning and implementation process and, as a result, most of the schemes ended up benefiting the richer people who quickly bought out the people who had first been allotted plots. Staff of NHC and municipal authorities did the actual allocations.

The USAID Private Sector Housing Guarantee Programme on the other hand was aimed at inducing private developers to take on construction of low cost housing costing around KSh110,000 through the provision of mortgage financing through private financial institutions using donor funds. This had the potential of introducing both private developers and financial institutions into a part of the market which they had little involvement in the past.

USAID needed a government decision by Parliament, to approve the Private Sector Programme. The government was to charge a fee (to be paid to the government by commercial borrowers) for assuming the foreign exchange risk. If the first $20 million guarantee moved quickly and demonstrated that private developers would indeed offer lower cost housing programmes, a second phase could have followed in 1987. During the first programme the conditions for developing a secondary mortgage market were to be established, and during the second, mobilisation of additional resources for lower income housing through this market was to begin. The needed guarantee by USAID did not materialise and the guarantee project was discontinued

Two other major projects for financing shelter and infrastructure implemented under the same Programme in Kenya were:

- USAID/Kenya Government Secondary Towns project in all eleven major towns in Kenya implemented by the NHC; and
- the Small Towns Shelter and Community Facilities project.

The latter projects comprised two-roomed, expandable, core housing, costing between KSh70,000-80,000 per unit and infrastructure facilities provided through local authorities.

As at March 1992, US$ 50 million had been spent under the Housing Guarantee Programme in Kenya. The Kenya Government provided a guarantee for the loans channelled through government agencies. In addition to the above, grant assistance were extended to the following organisations:

- US$ 1 million to National Co-operative Housing Union (NACHU) towards technical assistance, equipment and office acquisition;
- US$ 1.2 million to Kariobangi Housing Society, supported by NACHU. NACHU managed the construction work on core houses. The estimated unit costs were KSh 80,000 for one-roomed units. Families were required to pay 10% of the unit costs, while the rest was given as loan over 20 years at 14% p.a. The National Social Security Fund (NSSF) had committed to boost the loan to KSh 50 million, but this never happened. The objective of this revolving fund was to enable other groups and agencies to benefit from the fund.

Major impediments to the above housing schemes included: lack of slum upgrading policy by the government; lack of government support and sanctioning of upgrading projects; and outmoded building and planning standards at the time.

c) The World Bank Infrastructure Project

The World Bank approach to the shelter problem in Kenya had been through site-and-services projects. The concept was based on the idea that affordable standards with cost recovery could facilitate the replication of projects on a large scale. The current World Bank policy emphasises public sector solutions and reduced standards to make interventions cost effective and affordable by low-income groups.

The Bank no longer focuses upon direct housing production but rather encourages governments to adopt an enabling role of managing housing sector as a whole. This involves:

- property rights development through cadastral surveys;
- enhancing housing finance by supporting competitive, market-oriented institutions;
- improving access of low income households to credit, and
- creating adequate mechanisms for cost recovery as well as provision of infrastructure for residential land development (large-scale truck facilities, upgrading, site and services projects etc).

The World Bank supported three housing infrastructure projects in Kenya. The first project involved providing additional sources of potable water supply for Nairobi and to strengthen the Water and Sewerage Department of Nairobi City Council. The second and third projects involved developing and upgrading housing units for the urban poor, as well as expansion of sewerage coverage.

All the three projects were generally successful. The water supply has largely kept pace with increased population. Increase in the number of water kiosks in the slums increased availability of water in these areas. The only problem was that individual kiosk owners charged more than six times what the Council charged them. The possibility of involving CBOs and NGOs in running the kiosks was suggested as an alternative solution.

The Urban I and II projects helped release over 8,000 housing units (each unit had expansion space for up to six rooms, but many owners constructed more) in the market and subsequently helped expand the supply of rental rooms. The number of rooms in the three project sites on Dondora, Kayole and Mathare North was estimated at 80,000 rooms accommodating 174,000 people. The rent charged was affordable and varied from KSh 800 – 1,500 per month depending on room size and available facilities.

Nairobi City Council managed the loan recovery. Although the initial loan recovery was good, the deteriorating financial and administrative structures compromised the council’s ability to contain defaulters. Comparative cost recoveries on private and NGO-funded projects were better than those of the World Bank and Nairobi City Council projects. The improved infrastructure also increased the price of land within the project areas. The construction of additional sewerage enabled at least 65% of Nairobi’s population to have access to water-borne sewerage system.

Some of the lessons learnt in developing these projects indicated that Urban projects alleviated infrastructural bottlenecks in various ways, i.e. housing, water supply and transport. The projects also illustrated that housing finance projects, if developed in an appropriate regulatory environment, can effectively target low-income beneficiaries without sacrificing sustainability. In site-and-services programmes, however, the poorest could only afford heavily subsidised outputs. Even cost-effective slum and squatter settlement upgrading, which can benefit the poorest, suffers from deficient cost recovery.

Currently the major players in the housing market in Kenya are the private sector, building middle to high-income housing, individuals and community-based groups. The public sector is no longer active, except at a very limited level through the NHC, the NSSF and Kenya Re-insurance.

1.3.4 Role of Local Authorities in Infrastructure and Housing Delivery

The households in the overcrowded Nairobi's informal settlements have poor access to services such as safe water, sanitation and solid waste disposal, and are thus exposed to the dangers of ill health and disease.

The Council has to supply water to nearly 2 million inhabitants. The supply has not been able to cope up with the growing demand. The Nairobi Metropolitan Planning and Sewerage Strategies and Sewer Master Plan was completed in 1974 and has not been updated since. Sanitation facilities have therefore also not kept pace with growing population. The problems are particularly compounded by the fact that housing densities in some areas are now much higher than originally planned and low-cost informal housing has emerged in all areas not originally intended for residential development.

In areas served by sewerage, a number of sewerage lines are blocked and overflowing owing to poor maintenance or illegal connections, which then cause blockage. The areas not served are a health hazard. However, lack of adequate control of development has made it difficult for the Council to provide adequate services to these areas. The other problems of sewage and water relate to the Council's inability to collect revenue from users. There are instances of late billing, incorrect meter reading and lack of appropriate action against defaulters.

Nairobi City Council has been borrowing mainly for housing, water and sewerage, infrastructure development and construction of markets. Funds for Umoja I and II, Dondora site-and-service schemes were received from the World Bank, USAID and Housing Finance Company of Kenya. Since 1990, no additional loans have been received for housing development.

In all cases, the government guarantees funds raised externally. The government is also required to put up-front 10% of any funds raised externally. The Council's inability to service its external debts affected the extent to which it could raise additional external funds. The Council has therefore been raising funds internally from the Local Government Loans Authority and local banks to meet its budget shortfalls. Inter-lending between departments is common and often revenue raised from water and sewerage, for example, could be diverted to meet the Council salaries and other administrative expenses.

Most local authorities in Kenya do not have the financial capability to finance projects aimed at improving the services and amenities within their areas of jurisdiction. They therefore resort to borrowing from external agencies. The law also allows them to issue stocks and bonds to raise revenue. This has, however, been restricted to Nairobi City Council (although the Council has not issued new stocks recently, the last stocks issued having matured in 1993).

Most of the external loans are of long term (10-40 years) with interest rates ranging from 3-6.5%, sanctioned by the Ministry of Local Government and guaranteed by the Government. Debt servicing has been a big problem to all local authorities due to their weak financial positions. A number of councils are even forced to withhold staff statutory deductions e.g. social security, superannuation fund, income tax etc. A number of them also owe the Local Government Loan Authority substantial amounts in unpaid loans.

The current high level of overdrafts and inability to release staff statutory deductions on time has forced the NHC to repossess some of its housing units formerly managed by the councils. It is also becoming increasingly difficult for the local authorities to raise any funds externally. The Ministry of Local Government therefore recently formed Kenya Municipal Reform Programme to improve the financial capacity of local authorities and enhance their ability to maintain and extend infrastructure services.

1.4 Non-Governmental Organisations

1.4.1 General

It has already been acknowledged that the NGO/Community Sector is making a significant contribution to the promotion, production and improvement of shelter in various regions of the developing world.[7] NGOs operate on the principle that all people have a right to control their own destiny, with a preference for shelter solutions based on their own community or neighbourhood. In cities around the world, low-income groups and the communities or neighbourhood organisations that they form undertake most additions to the shelter stock. In many countries, NGOs play the role of originators, enablers and implementers of new ideas and models when working with community-based organisations and helping such organisations' development efforts.

The research and other activities conducted by NGOs have contributed much to the understanding of the nature and scale of shelter problems, and their collaborative efforts as coalition builders is now evident in many nations, as such coalitions seek to influence government policies and priorities.

In many instances NGOs/community-based groups have succeeded in demonstrating alternative solutions to meeting shelter and service needs through specific projects, and these in turn have sometimes pointed to approaches which have wider applications.

In Kenya a number of NGOs have mounted commendable efforts in community mobilisation in low income settlement. These include: Action Aid Kenya in implementation and equipment development, the Undungu Society in the manufacture of construction equipment and mobilisation of self help groups, the Mazingira Institute in setting up a credit system and training, NACHU working with co-operatives as a vehicle to housing delivery, Habitat for Humanity building homes with rural communities and numerous CBOs working with groups in informal settlements.

Although all the three forms of organisation (NGO, CBO and co-operatives) do work with low-income groups, some focus only on fulfilling members' needs while others aim at serving a particular target group who may not necessarily be members. In Kenya, co-operatives are registered under the Co-operative Societies Act (section 1.6), the NGOs under the Non Governmental Act and

[7] UNCHS/HABITAT. Role of NGO and Community Sector. Global strategy for shelter to the year 2000.-

CBOs by the Ministry of Culture and Social Services. Their regulatory framework similarly differs. Operation of co-operatives and CBOs are based on a voluntary approach, an economic purpose and equity among members. NGOs, however, serve both members and non-members and can be formed for economic purposes or simply for charity. The assets of the co-operative belong to its members, while those of the NGOs belong to the communities they serve.

1.4.2 Regulatory Framework and Functions

The operation of NGOs in Kenya is governed by the Non-Governmental Organisations Co-ordination Act, 1992 (originally 1990). The Act defines a non-governmental organisation as 'a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organised themselves nationally or internationally for the promotion of social welfare, development, charity or research through mobilisation of resources'.

Application for registration is submitted to the NGO Registration Bureau in a prescribed form. By registering, an NGO becomes a corporate body. An organisation established by a state or a group of states for welfare, research, relief, public health or other forms of development assistance is not eligible for registration under the Act.

The Act also provides for establishment of a Kenya National Council of Voluntary Agencies, as a collective forum of all the voluntary agencies registered under the Act. The Council's functions include: facilitating and co-ordinating the work of all NGOs operating in Kenya; advising the Government on activities of the NGOs and their role in development within Kenya; and receiving, discussing and approving the code of conduct prepared by the Council for self regulation of NGOs and their activities in Kenya.

No organisation registered under this Act is entitled to diplomatic or consular privileges or immunities. NGOs are not therefore automatically exempted from any form of taxation. Individual applications can, however, be channelled to the Minister of State through the NGO Registration Bureau. Applications may be considered only for value added tax on goods and services required to meet the organisation's objectives and on income generating activities, or income tax for expatriate employees. Where an exemption is granted, the organisation may not dispose of any equipment for which duty has been exempted without the Board's express permission.

One of the requirements for registration is production of an NGO constitution. A model constitution is available at the Bureau at a small fee for new applicants unfamiliar with how to draw up one. The following are some of the specific objectives allowed in the prototype constitution:

- to raise, mobilise and disburse funds and other resources for the promotion of the objects of the organisation; to acquire any movable or immovable property and any buildings or things whatsoever and sell, dispose of, mortgage, lease or otherwise deal with all or any part of the property or rights of the organisation;
- to enter into any arrangement with any government or authorities that may seem conducive to the organisation's objectives or any of them, and to obtain from such government or authority any rights, privileges and concessions which the organisation may think desirable to obtain;

- to apply to any governments, public bodies, corporation and receive gifts, donations, subscriptions in cash or kind; to establish an endowment fund for purposes of receiving such gifts or donations; and
- to draw, execute or otherwise deal with negotiable or transferable instruments; to invest any money not immediately required as the board of the organisation may determine.

The model constitution does not provide for any borrowing by NGOs locally or overseas. However, constitutions of micro-finance agencies do provide for borrowing and lending activities. The requirement is that such activities must be included in the individual NGO constitution and approved by the NGO Registration Board or the relevant governing body. For instance, Kenya Rural Enterprise Fund (K-REP), a micro-finance institution, was registered in March 1999 by the Central Bank of Kenya to operate under the Banking Act while retaining its NGO status.

NGOs operating in rural areas do not require planning and building approvals for implementation of housing and infrastructure projects. However, those wishing to undertake such projects within municipal boundaries have to comply with the building byelaws, public health conditions and zoning regulations.

All property owned by NGOs is normally held in trust by appointed trustees and cannot be sold without the Board's approval. NGOs are not allowed to be dissolved without the Board's prior written authority, following a written application signed by three of the officials of the organisation. Upon dissolution, the NGO's remaining assets have to be distributed to other organisation(s) with similar objectives.

1.4.3 Community Based Organisations (CBOs)

CBOs are grassroots groups whose broad goals are self-development. Their strength lies in their ability to mobilise members cohesively, tackle local problems, and seek common solutions. CBOs relate closely with members at the grassroots level and are therefore better placed to understand their aspirations and interests. They are, however, constrained by their weak resource base and limited exposure.

In Kenya, CBOs are key players in the field of human settlement alongside the government, local authorities, the private sector, NGOs, co-operatives, religious organisations, donors, professional bodies and other CBOs (youth groups, women, groups and neighbourhood associations). All CBOs in Kenya are registered and regulated by the Ministry of Culture and Social Services, and their operations are restricted at Divisional or District levels. Unlike NGOs, they are not allowed to work across provincial administrative boundaries. Registration forms are available from the Provincial Director of Social Services. The Chief/District Officer and Social Development Officer of the intended area of operation must endorse the application for registration. The application together with the endorsements and the CBO constitution as approved by members are then submitted to the Provincial Social Development Officer for registration.

There is no Act or guideline for the operation of CBOs. The Ministry of Culture and Social Services simply expects them to adhere strictly to their internal constitution as approved by members. The Divisional Social Development Officers are supposed to visit the CBOs regularly and gauge their performance.

Occasionally, they also organise seminars and workshops for CBOs to enhance their efficiency and effectiveness.

To date there are thousands of CBOs registered within the eight provinces and involved in different activities e.g. orphan care, health education, members' welfare, sanitation, education, housing (actual construction and building material provisions), credit, etc. In urban centres, a number of CBOs have been formed purposely to meet members' needs. Examples includes CBOs established to raise funds to transport bodies of members' home following death, to meet members' children's education or medical expenses. Such CBOs act as support groups for members at times of need and are very common in the slums. Membership is based on some common bonding factor, such as belonging to the same tribe, living in the same area, working for the same employer or in the same trade, or simply gender. Many women's groups operate informally, relying simply on goodwill and trust among their members.

Data from the Ministry of Culture and Social Services indicate that there are 23,000 women's groups around the country with varying activities.[8] The main activities include rotating savings clubs (known as 'merry-go-rounds'), farming, maize-milling and other agricultural services, handicrafts, transport and housing construction.

Table 2: Statistics on Women's Groups

Kenya	No. of Groups	Membership	Total Contribution (KSh)
1992	23,000	895,000	
1995	32,737	1,072,149	295.9 million
1997	82,205	3,096,102	352.9 million
1998	97,319	3,900,548	381.8 million

Source: Graham Alder and Paul Munene, October 1999. The Contribution of Co-operatives to Shelter Development in Kenya. Income for 1992 not available.

The number of women groups increased steadily from 23,000 in 1992 to 97,319 in 1998, indicating that there are perceived benefits in joining these groups. The size of groups ranges from 15-50 individuals. Larger groups are discouraged, because they are difficult to manage. The groups operate like co-operatives, i.e. they are non-profit, have elected leaders, hold regular meetings and make regular financial contributions.

Most CBOs operate in rural areas and do not therefore require planning and building approvals for the implementation of housing and infrastructure projects. However, like NGOs, they will require municipal approval to ensure they abide by the building byelaws, and the health and zoning regulations if the project is located within the municipal boundaries. They are free to own, sell, transfer or inherit land, as long as this is done as part of their normal business. They are not allowed to accept deposits from the public, although they can accept deposits from members or well-wishers and lend on to members at agreed terms. Most 'merry-go-rounds' are managed by CBOs.

[8] Graham Alder and Paul Munene, October 1999. The Contribution of Co-operatives to Shelter Development in Kenya.

To external agencies, CBOs are important as they are the institutional means for engaging with communities to determine their needs in a participatory approach and are also vehicles for delivery. According to a 1992 report provided by the Ministry of Culture and Social Services (the Women Bureau Division), approximately 1,200 of these groups were engaged in construction or housing activities in one way or another. Some of these groups have since converted to formally registered housing co-operatives. Examples include Voi Women Housing Co-operative, Kiriti Women Transport and Housing Co-operative, and Kwa-Rhoda Neighbourhood Housing Co-operative. The Masai Housing project in Kajiado, supported by a British NGO, Intermediate Technology Development Group (ITDG), to construct 30 housing units, is however still a CBO. All the above groups are outside Nairobi province.

In Nairobi, Mukuru Recycling Centre is operated and managed by people living in the slums surrounding the city dump site at Dondora. Various groups are involved in recycling waste materials, composting and urban agriculture, and manufacture of cooking fuel as well as support to children. In Kibera, Maji ya Ufanisi (an NGO formerly known as Water Aid) is supporting an CBO called Ushirika wa Usafi which provides water to Laini Saba village. These are just a few of the CBOs involved in the provision of infrastructure and housing.

1.4.4 Women's Participation

Poor housing, poor and overpriced water supplies, poor drainage, and poor health and sanitation services in Nairobi's slums place a grossly unfair burden on the women. Their incomes are low, their responsibility for childcare overwhelming, and they have to fetch water and domestic fuel, and to provide food for their families. Many find it impossible to do all these things, as in most cases the costs are well beyond their meagre incomes.

A number of women are forced to hawk away from home because zoning laws do not allow hawking activities within residential areas. Considering their participation in site and service schemes, it is worth noting that 44% of the World Bank sponsored site-and-service scheme were allocated to women. Most of them have migrated from their rural areas to the city because of loss of land rights in rural areas.

Most low-income families can hardly have enough to survive on and therefore rarely maintain bank accounts. A few maintain accounts with the Post Office Savings Bank because of the low minimum balance required (KSh 500). To open an account in a commercial bank, they will need two referees who must be saving with the same bank, their identity card, two passport size photographs and the minimum cash needed, which varies with the bank selected. For example, Savings & Loans and HFCK need KSh 1,000, Barclays and Standard KSh 10,000 and Kenya Commercial Bank KSh 3,000 -10,000 depending on the branch selected. To receive loans from commercial banks, applicants must have a good saving history and appropriate collateral. The requirements are the same regardless of the applicant's gender.

People are free to own, sell, transfer or inherit land or property located in the urban centres. In the rural areas, however, customary laws govern property transfer and inheritance. Each community has its own customs and practices. The issue of inheritance by women depends on the relevant customary law applicable. In most cases, however, preference in allocation is given first to men in the family.

1.5 Financial Institutions and Micro-Finance Agencies

1.5.1 Financial System and Regulatory Environment

The Banking Act which established the Central Bank of Kenya in 1965, also conferred upon it regulatory and supervisory authority over financial institutions. These include control of the growth of the banking industry implemented through a licensing system, monitoring the quantity and quality of the institutions' assets and liabilities, imposition of minimum reserve ratios and control over network expansion.

The emergence of several indigenously-owned financial institutions provoked a series of amendments essentially intended to limit entry into the banking industry. The required minimum capital for a bank increased from KSh 5 million before 1982 to KSh 500 million in 1999. More stringent reporting requirements were also instituted.

During the period of controlled interest rates that ended in 1991, Non Bank Financial Institutions (NBFI) were allowed to charge higher interest rates than commercial banks, as a result of which nearly all commercial banks created NBFI affiliates to deliver some and in most cases the bulk of their credits. In 1993, there were about 36 commercial banks and 60 NBFIs. In 1993, the Central Bank abolished the interest advantage to NBFIs, subjecting both to the same regulatory arrangement. NBFIs were then encouraged to convert into banks to take full advantage of services that banks can offer, including issuing their own cheques. By mid 1999, there were 17 NBFIs and 56 commercial banks, including the newly licensed Majestic, Masacom and K-REP Banks.[9]

Unfortunately, 60% of deposits, loans and advances is concentrated in five major commercial banks. By end of 1997, seven of the largest banks accounted for 77% of 512 outlets throughout the country: Kenya Commercial Bank (KCB) with 180 branches, Barclays Bank of Kenya (BBK) with 87 and Standard Chartered Bank (SCB) with 36. These comprised 59% of the total outlets. The rest of the banks tend to serve special interests, sectors and communities with a large proportion owned, controlled and geared towards Asian communities. K-REP will be the first commercial bank with a deliberate focus on the provision of banking services to small-scale savers and borrowers. Besides financial institutions, Kenya has also a stock exchange with 66 participating companies, insurance companies, a remnant of specialised development finance institutions and a host of hire and lease purchase institutions.

The Ministry of Co-operatives (now the Department of Co-operatives after recent changes) under the Co-operative Societies Act regulates membership institutions like savings and credit co-operative societies. The Co-operative Bank was registered in 1965 as a co-operative society and later licensed to operate as a bank under the Banking Act. Its main objective is to mobilise funds to needy co-operative societies. It provides advisory and banking services through its branch network in major towns and accepts deposits from individual customers. So far, the Co-operative Bank has advanced loans to co-operatives for a number of

[9] Use and Impact of Saving Services for Poor People in Kenya, By Henry Mugwanga 1999.

activities, including the purchase of commercial and residential buildings, construction and farming. A Teachers' Housing Co-operative (Kimute) in Kisumu, supported by NACHU, benefited from bridging and mortgage finance from the Co-operative Bank for the construction of 40 low cost housing units for its members in 1989.

The interest rates payable on mortgages has gone up owing to the uncertain financial position prevailing in the country. The lowest interest rates are offered by the Housing Finance Company of Kenya (HFCK) at 26%. HFCK, however, directs all its mortgage holders to open mortgage-related savings accounts with two months repayment deposit as a precondition for lending. This amount is retained by the financial institution during the first two years of the loan. Other banks and building societies charge up to 30% p.a. According to experts in the building industry, the high interest rates will further weaken the construction industry, as many potential builders find it difficult to service the loans (see also Annex II).

In most cases, there has been inaccessibility of funds for the middle and low-income groups but, even when funds are available, these groups are unable to provide sufficient/acceptable security to offer for such loans. The conservative lending terms for banks, building societies and insurance companies are usually unfavourable to the low-income earners. Other constraints include unavailability of serviced sites at affordable costs and unacceptability of low cost designs utilising local building materials.

1.5.2 Can Commercial Banks lend to the poor?

According to a recent study on the role and impact of micro-finance institutions in Kenya, a few banks like Barclays, Kenya Commercial Bank and Victoria Finance Co. have attempted to develop and implement special service schemes for the poor, mainly in the form of credit facilities to small enterprises. Such schemes benefited from donor financing and were therefore able to lend at below market rates. Lately, however, a number of banks including Standard Chartered and Barclays have raised their minimum balances to open and maintain a bank account to KSh 10,000 (£100). Since then, most low-income families have withdrawn their accounts from such banks.

A number of handicaps have been identified as limiting the use of commercial bank saving services by poor people. These include:

- a lack of counter services or reciprocity; banks have little to give low income groups in terms of attention and recognition;
- inadequate access or convenience: most commercial bank facilities are not within reach of the poor, so saving services devised by the poor are often operated within their own neighbourhood; these are near and free from embarrassment which the poor, especially the illiterate ones, encounter in formal environments that assume literacy;
- a lack of appropriate knowledge on banking rules/procedures, leading to high transaction costs and low returns on savings;
- associated risks of losing funds in case of disagreement among group members; and
- low interest rates given on the savings deposits.

Banks and financial institutions will accept deposits from NGOs, CBOs and low-income families (both men and women) as long as they are account holders and can maintain the minimum deposit levels. High interest rates and the requirement for physical collateral bar low-income families from accessing commercial bank loans. NACHU has, however, been able to secure funding from local banks to support the construction of 129 housing units for co-operative members as indicated in Table 3. Loans extended to these projects are managed directly by the respective banks.

Table 3: NACHU supported Projects Managed Directly by Banks

	Project	No. of units	Deposit by Members (KSh)	Loan Amount (KSh)	When Completed	Financier
1	**Kenya Medical Ass.**	63	10,800,000	36,000,000	1992	HFCK/ Co-op Bank
2	**Kimute Housing**	40	1,405,965	4,686,550	1989	Co-op. Bank
3	**Kimmi Housing**	12	1,772,586	4,431,464	1995	Co-op. Bank
4	**Gichugu Housing**	1	2,938,811	4,898,018	1993	Co-op Bank
5	**Unity Housing**	12	4,080,000	6,800,000	1996	Co-op Bank
6	**Kibirigwi Farmers Co-operative**	1	1,088,220	3,627,400	1995	Co-op Bank
	Total	**129**	**22,085,582**	**60,443,432**		

Source: NACHU records

1.5.3 Micro-Finance Agencies in Kenya

General

The Kenyan Micro-finance industry is one of the oldest and most established in Africa (Mugwanga 1999). Initially mainly supported by Church-based institutions like the National Council of Churches of Kenya (NCCK) and other smaller church-based NGOs, the programmes were ad hoc and were done as additions to other social outreach programmes. In the 1980s, two other specialised organisations i.e. Kenya Rural Enterprise Fund (K-REP) and the Kenya Women Finance Trust (KWFT) began operating. The organisations were heavily subsidised then and used the integrated (credit and training) approach to assist micro-enterprises. K-REP had limited loan portfolio but focused more on lending funds provided by USAID and other donors to smaller organisations like NCCK, KWFT and Tototo among others.

By the early 1990s, interest and knowledge about the micro-finance industry had grown substantially and the approach to the industry began to become more focused and sustainability-oriented. The “minimalist” Grameen approach was adopted by most MFIs, and other ancillary activities like training were either stopped or spanned off into separate programmes. A few specialised product-based institutions began to emerge in the sector, as many church-based organisations died out or collapsed owing to a lack of funding. The most prominent institutions that emerged were K-REP, KWFT, PRIDE, Faulu and, increasingly, other institutions like NCCK and CARE-WEDO. All these institutions continue to be reliant on donor funding, although K-REP has now been licensed as a bank and is scheduled to operate as a commercial institution. The focus of these institutions has gradually changed from the emphasis on the very poor to the enterprise poor, as the demands on these institutions to become financially sustainable has increased.

A number of studies (MicroSave Africa: 1999, T. F. Express Ltd: 1997, Gemini 1994) so far carried out in Kenya suggest that poor people have limited or no access to formal financial services. The Gemini study, for example, found that 90% of micro and small enterprises in Kenya have never received credit. Since 45% of the Kenya's population live at or below the poverty line, this implies that a significant proportion of the population do not have access to formal financial services. They rely for financial support largely on mechanisms such as 'merry-go-rounds', family and friends at the lower end, and NGOs, church groups and savings and credit co-operatives at the upper end. Except possibly for the Kenya Post Office Savings Bank, most banks in Kenya do not target the poor as their clientele. NGOs have made efforts to act as intermediaries but so far their outreach is limited to densely populated urban and rural areas.[10]

As a further indication of limited penetration of credit services, out of the ten poorest districts in Kenya (Marsabit, Samburu, Isiolo, Makueni, Turkana, Tana River, Machakos, Mandera, Kilifi and Embu) the leading MFIs have a presence in only four, i.e. Marsabit (K-REP), Machakos (K-REP), Kilifi (KWFT, NCCK) and Embu (K-REP, KWFT, NCCK).[11] In some districts like Isiolo, Samburu and Makueni, other organisations like Action Aid and World Vision provide assistance. **Annex III** provides a brief on the two main MFIs in Kenya, including their loan terms and financial performance

b) **Savings Services**

Micro-finance institutions in Kenya are all NGOs. Although almost all have in-house savings programmes, they are not by law allowed to accept savings from members of the public. The savings activities that are undertaken are primarily intended to strengthen their positions as lenders within their closed membership. They therefore consider savings important to ascertain a borrower's character (borrowers often save for 7-11 weeks before receiving a loan) and/or a collateral for the loan extended. Regular compulsory savings monetise the value of group guarantees and gradually enhance the incentive to repay the loan while higher savings mean that the institution can disburse larger loans in future. Table 4 gives the relative positions of two micro-credit institutions.

Table 4 Savings as a percentage of loans in Micro-finance Institutions

Institution	Savings as a percentage of loan outstanding
Faulu	64.9
Kenya Women Finance Trust (KWFT)	66.2

[10] Dropouts amongst Kenyans Micro-finance Institutions, a report produced by MicroSave Africa, June 1999.
[11] Republic of Kenya, Office of the President, Poverty in Kenya 1997.

Kenya Rural Enterprise Fund (K-REP)	32.1
CARE-WEDCO	38.9

Source: Use and Impact of Savings Services in Kenya, By H. Mugwanga, 1999.

Although Micro-credit institutions are not mandated to accept savings from members of the public, their activities have stimulated savings services among their general membership, which have become available to clients through their individual and group accounts. Unfortunately, very poor people are excluded from such indirect benefits, because they are not clients of the institutions.

The gender composition of micro-credit institutions' clients is heavily tilted towards women. This is because KWFT targets only women and WEDCO is working mostly with women, while PRIDE, K-REP and NCCK report majority female clients.

While operating as an NGO, K-REP discovered that beyond a certain level there are structural and legal frustrations that hinder the effective delivery of services to the target markets of micro-finance institutions. The newly registered K-REP Bank will operate within the legal framework governing the banking institutions in Kenya. It will rely on the group-based lending approach, which has been widely used globally especially in informal financial operations and popularised by the Grameen Bank, for a significant portion of its credit operations. On a positive note, the Central Bank has already expressed a willingness to collaborate with MFIs to develop a regulatory framework that will ensure the soundness and security of the micro-finance sector. The onus remains on the industry practitioners to define the MFIs that could be considered under the Central Bank's regulatory authority. The Central Bank has no resources to regulate non-deposit taking financial institutions.

c) Kenya Rural Enterprise Programme

The Kenya Rural Enterprise Programme (K-REP) was established in 1984 as a project of the US-based Private Voluntary Organisation (PVO) World Education Inc. It was then an intermediary organisation providing a link between USAID and Kenyan organisations with activities to promote small and micro enterprises. The primary objective of K-REP at the time was to channel financial and technical assistance, as well as training, to local NGOs wishing to start or expand credit programmes for small micro-enterprises development. By 1989, it had provided support to twelve NGOs, all of which were operating welfare programmes. The assistance was intended to help them expand their individual revolving loan funds for on-lending to entrepreneurs at subsidised interest rates of 12-14%. An additional grant was provided to cover operational and institutional building costs.

Integrated approach to lending was used where client training and post-loan counselling was provided. This approach was, however, abandoned as it led to low disbursement rates and high dependency on donor funds. In 1989, K-REP selected four NGOs to work with on a new group lending approach. This included the Council for International Development, Pride, Tototo Home Industries, National Council of Churches of Kenya (NCCK) and PCEA Chogoria Hospital. Loans were advanced by K-REP to NGOs at subsidised rates of 7% over a period of three years. They were subsequently to extend loans to their clients at market interest rates.

After three years of operation, K-REP had made over 10,000 loans amounting to KSh 70 million. The repayment rate had grown up to 97%. In addition, the project had mobilised substantial deposits in savings and the loan re-flows were capable of covering the direct costs of operations. In 1993, K-REP was registered as an NGO under the NGO Registration Act 1992 to promote Kenyan NGOs, provide training and technical assistance to help build institutional capacity.

The progress in the various areas of operation provided the necessary indicator on the way forward for K-REP in the implementation of its own lending programme with the ultimate goal of establishing a self sustaining micro-finance institution. To date, K-REP implements two models of micro-credit delivery namely: Juhudi and Chikola.

The Juhudi or group lending approach is based on Grameen Bank methodology. Group members (organised in groups of five) take responsibility for all aspects of loan management including loan appraisal, approval, disbursements and recovery. Credit is provided to individual entrepreneurs but guaranteed by the group. In the Chokola loan model, however, it is the group that borrows then lends on to its identified members. The group in this case must raise 10% of the amount required. This model is susceptible to the dangers related to poor borrower selection and possible diversion of funds. K-REP still continues with this project, although K-REP Bank was finally registered in March 1999. Annex III provides details of K-REP's current lending terms.

d) Kenya Women Finance Trust

The Kenya Women Finance Trust (KWFT) was founded in 1981 as an affiliate of World Women Banking, with the objective of helping Kenyan women participate in the economic mainstream through credit and training. At the initial stages it disbursed loans to individual and groups and also provided training. From 30 borrowers in 1992 receiving a total of KSh 150,000 the fund grew to 3,460 borrowers with a total loan portfolio of KSh 33,984,000 in 1995.[12] The main services are group savings, loans, loan guarantees, client counselling and training. Apart from the two offices in Nairobi, KWFT maintains branch offices in Kilifi, Karatina and Kwale.

KWFT serves only women. Although it started operations in the early 1980s with grants from donors, this support dwindled in the latter part of the decade because of poor performance. In the 1990s, the donor confidence had been regained, and currently KWFT collaborates with other similar micro-finance institution and also with commercial banks like Barclays Bank of Kenya. Its main source of funds had been members' contributions, K-REP, Barclays Bank of Kenya, Women World Banking, UNDP, the Ford Foundation and the International Fund for Agricultural Development (IFAD).

KWFT later adopted a group lending approach similar to the one implemented by K-REP. The Biashara credit scheme follows the Grameen bank approach, but modified to suite the Kenyan situation. The Uaminifu scheme, the second product offered, provides credits to already existing groups. The groups then lend money they receive from KWFT on to their members. Through a collaborative arrangement with Barclays Bank of Kenya, the Fund facilitates

[12] Washington K. Kiiru and Glenn D. Pederson: Kenya Women Finance Trust, December 1997

larger loans to women by providing a partial guarantee for the loan. The client provides collateral to guarantee the balance.

KWFT's loan performance has done well over the years, with an average repayment of 97% between 1993-1996. The lesson leant is that successful lending requires good management skills, qualified staff, an effective information system and a continous effort to train personnel and upgrade the management system. The relationship with formal financial institutions is important as a basis for local mobilisation of resources; the commercial banks will therefore remain an important alliance. Since the lending is its core business, the Trust aims at keeping its costs down while scaling up its lending. KWFT has realised that small loans are expensive to administer, hence its survival will depend on its ability to charge high interest rates, lend to more women and maintain high repayment rates. In 1995, KWFT's real interest rate was 28.3% p.a. in comparison to commercial banks' rate of 19.7-28.3% p.a. Annex III provides details of KWFT current lending terms.

e) Smallholder Irrigation Development Organisation

Most micro-finance institutions in Kenya lend mainly for business-related income generating activities. One institution, however, the Smallholder Irrigation Scheme Development Organisation (SISDO), has also tried to lend for infrastructure on gravity-fed irrigation schemes. SISDO was founded in 1991 with funding support from the Dutch Government to provide technical, financial and management services to smallholder farmers engaged in the production and marketing of high value irrigation cash crops. It currently implements four main loan programmes: i.e. loans for infrastructure of gravity fed irrigation schemes; loans for individuals in pump-fed irrigation systems; loans for farm inputs; and high grade milk zero-grazing programme.

Under the infrastructure loans, farmers organise themselves into Water Users Associations (groups of 50-500 households) at scheme levels. The groups are further broken down into groups of 10 - 30 farmers, with each group having its own independent water supply. Members of each group guarantee each other's loan. The amount approved as a loan is paid directly to the approved contractor. Farmers undertake personally and collectively to repay the loans. The scheme allows each farmer to irrigate at least one acre of land.

Farmers who cannot benefit from the above scheme are provided with loans for the purchase of pumps and other equipment. Such loans are only given to smallholders residing in a cluster and willing to secure each other's loan. Loans are further secured by a chattel mortgage on equipment purchased. Loans for farm input (seeds, fertilisers and farm chemicals) target mainly women and provide loans for the procurement of agricultural inputs for irrigated crops. Farmers organise themselves into groups and collectively contribute to a loan insurance fund. In the grade milk zero-grazing programme, the farmer has to contribute 15% of the loan approved to the group account in a bank selected by SISDO to be used as security fund against all future loan transactions. The scheme is managed and implemented using the Grameen model.

1.5.4 Regulations and Procedures regarding Foreign Loans and Grants

Kenya's foreign exchange market was liberalised fully in 1993. Since then, registered organisations are permitted to hold foreign currency accounts abroad or with registered banks in Kenya and may use the balances in these accounts to pay operating expenses and business-related expenses (including imports, debt service, and dividends). They are not required to notify the Central Bank of any such transactions. Payments to residents or institutions in other countries may be made in KSh to the credit of a foreign account in Kenya or in any foreign currency. Receipts may also be obtained in KSh from a foreign account in Kenya or in any marketable foreign currency. However, if an institution wants to repatriate more than US$ 500,000 at any one time, then it has to notify the Central Bank of the transaction explaining the reason why it needs to repatriate such a large amount. No restriction is placed on the level of grant receivable by any local organisation.

The Exchange Control Unit at Trade Finance is responsible for processing all foreign exchange related transactions where necessary. Although no procedure has been prescribed by the Central Bank of Kenya (CBK) for Commercial Banks to guide their customers, the CBK has advised commercial banks to follow the following procedure when approached:

- all loan agreements entered into by the customer and the lender must be forwarded for scrutiny/approval at the Exchange Control Unit at Trade Finance;
- the loan amount should be disbursed by the lender only after the Loan Agreement has been signed/approved by Trade Finance;
- a request from customers for remittance(s) of instalments plus interest under the Loan Agreement registered with the CBK must be made through the branches for scrutiny/approval by the Exchange Control Unit in Trade Finance, prior to effecting the remittance;
- a request for such remittance must be accompanied by supporting documentation i.e. demand notes from lender, receipt evidencing payment of withholding tax by the borrower, authority to debit account from customer, etc.

Investment of foreign funds in Kenya is generally not restricted but, to ensure eventual repatriation, it is necessary to obtain a “certificate of approved enterprise” for the investment. Foreign and domestic investments in specified types of production require approval. Foreign investors may repatriate the value of the original equity investment, denominated in the currency in which it was originally made, and the value of any profits that were reinvested and denominated in the currency of the original investment.

Local borrowing by non-resident-owned or controlled companies does not require an approval. The Government does not guarantee any borrowing by the private sector nor does it require such borrowing to be referred to the Central Bank of Kenya.

1.6 The Co-operative Housing in Kenya

1.6.1 General

The Kenyan co-operative movement has, since independence in 1963, played a major role in the country’s economy. The number of registered co-operatives has grown from 996 in 1975 with a membership of 664,000 and a turnover of KSh 691 million to 5,129 co-operatives in 1995 with 2.7 million members. The movement, with its KSh 20 billion (US$ 30 million) annual turnover, covers some 50% of Kenya’s Gross National Product.[13] It had been projected in 1995, that by

[13] Data from KUSCCO Savings and Credit Cooperative Society

the year 2000, the number of active co-operative societies would more than double and thereby raise the number of Kenyans who directly or indirectly depend on co-operatives for their livelihood to about 20 million people.

Sessional Paper no. 6 of 1997, ‘Co-operatives in a Liberalised Economic Environment’, and the revised Co-operative Societies Act 1998 provide the policy and regulatory framework for the operation of co-operative societies. The revision of the Act in 1998 greatly reduced the role of the government and increased the freedom and responsibilities of the co-operative members.

In the past years, a lot of changes have taken place within the co-operative movement as well as the social and economic environment in which the co-operatives operate. Initially, marketing of agricultural produce and supplying of farm inputs were the principal co-operative activities. However, during the past 15 years, the movement has expanded to include savings and credit, housing and consumer co-operative activities. Some of the activities like savings and credit have been subject to rapid growth while others like housing and consumer co-operative activities have shown very slow growth owing to a number of constraints.

The housing co-operative movement in Kenya is relatively young. Currently there are about 424 registered societies in this sector. Out of this only a handful have managed to take off, owing to various constraints such as lack of capital, unavailability of land, lack of technical, financial and administrative skills among society members, lack of short and long term financing for the projects, high interest rates, commitments and other fees charged by the financial institutions.[14]

The only co-operative sector with a significant bearing on housing co-operatives is savings and credit co-operatives, known in Kenya as SACCOs. SACCOs operate under the Co-operative Societies Act and Rules and are guided by their byelaws, which contain details of their management. All are based on common bond i.e. employees of one organisation in government, co-operative or private sector. A SACCO member is required to make regular monthly contributions in the form of shares, for a minimum period of six months before they can be allowed to borrow from the co-operative. After that, a member can borrow up to four times (depending on the SACCO’s cash flow position) of what they have saved at a maximum interest rate of 12% per annum.

The successful operation of SACCOs has been attributed to the check-off system, where employers are asked to make deductions for savings and loan repayment from salaries of SACCO members and remit them directly to the SACCO(s). This system has reduced the risk of defaults and of fraud, particularly since SACCO officials are employees of the same institutions. However, while many SACCOs operate successfully, a number of employers, including the government, collect savings and repayments but do not remit them to the SACCOs.

SACCOs have three types of loans: school fees loans, emergency and development loans. Development loans, which comprise the largest category of loans, are used mainly for land purchase, deposit for house purchase (with the larger amount for longer term financing being provided by a mortgage institution)

[14] The Contribution of Cooperatives to Shelter development in Kenya: A report done for UNCHS by Graham Alder and Paul Munene

and incremental building with a new loan being taken as soon as the previous one is paid off.

There is no institution in Kenya from which an individual can borrow money for housing at 12%, except from SACCOs. Banks charge around 28% p.a. for a maximum of three years and long term financiers are currently offering loans at 22-26% p.a. over a maximum period of 15 years. This has of course considerable impact on affordability and loan repayments.

Although many housing co-operatives, particularly worker-based, originated as subsidiaries of SACCOs, as it was legally important that the two activities be segregated, several SACCOs have attempted to undertake housing development directly on behalf of their members. One such SACCO is Harambee Co-operative Society. Harambee Co-operative is the largest SACCO in the country, with membership drawn from the Office of the President, the Provincial Administration and the Armed Forces, has been able to put up a number of middle and high income housing projects for purchase by its members in a number of towns in Kenya including Nairobi. Members of the housing co-operatives who still belong to SACCOs have been able to borrow funds from SACCOs and use them for housing.

1.6.2 National Co-operative Housing Union

The National Co-operative Housing Union (NACHU) was founded in 1978 to become an apex organisation for all primary housing co-operatives. NACHU was formally registered in 1979 as a National Technical Services Organisation to operate on a non-profit basis in the provision of services such as promotion, sponsorship, planning and implementation of housing co-operative projects. NACHU became operational in 1983 and had its first democratically-elected board in 1986. To date NACHU has been able to assist over 606 co-operative societies members acquire better housing.

Status of Housing Co-operatives Affiliated to NACHU

The model by-eaws made for primary housing co-operative societies includes as one of the objectives:

"To provide for its members a decent living accommodation at a fair and reasonable price together with such ancillary services as roads, drainage, water and light and together with facilities for physical and cultural recreation and all such matters as are usual, customary and desirous for building estates, blocks of flats or single dwellings."

At formation, the co-operative must decide the type of tenure it will adopt. The options are:

- limited objective: normally formed to jointly acquire land and in some cases to construct dwelling;
- multiple mortgage: where the plot bought by the co-operative is sub-divided to allow each member to hold individual title and therefore access individual house mortgages from a financial institution;
- continuing co-operative: normally acquires property jointly and holds it in perpetuity. Members then benefit from annual dividends derived from rental income and other services.

The limited objective type of co-operatives are the most common, as those aiming to build houses for individual members are unable to do so owing to the high cost of infrastructure and high interest rates on loans.

Data from the Ministry of Co-operative indicates that out of 424 registered housing co-operatives, 145 were affiliated to NACHU as at November 30, 1999. The total membership is estimated at 100,000. All the 145 affiliate co-operatives have undeveloped land or rental property, 33 co-operatives have undertaken house construction or rehabilitation. A total of 606 units had been built/rehabilitated by end of November 1999. Housing co-operatives in Kenya are almost wholly limited to urban areas, with Nairobi having 56 out of the 145 affiliated to NACHU as indicated in Table 5.

Table 5 Distribution of NACHU Affiliates by Province

Province	No. of Affiliates
Nairobi	56
Central	24
Rift Valley	19
Coast	17
Eastern	15
Nyanza	8
Western	6
North Eastern	0
Total	145

Source: NACHU Records: November 30, 1999

Table 6 below provides details of turnover and share capital among housing co-operatives up to 1993. Subsequent data were not available.

Table 6
Housing Co-operative: Turnover and Share Capital

Year	Turnover (KSh '000)	Share Capital (KSh '000)
1991	29	97,566
1992	31	128,196
1993	24	52,212

Source: Ministry of Co-operative Development.

Turnover in housing co-operatives has to be viewed differently from those of savings and credit co-operatives, because housing co-operatives have no surplus, as all contributions or shares go into investments. Once investments are made in land and construction, the returns are difficult to measure from the point of view of the co-operative. This is particularly so if the individual member takes on a mortgage where houses are built or simply tied up in case of undeveloped land.

Table 6 shows a decline in share capital in 1992/1993. This was due to a major devaluation of the KSh in 1993 that led to a steep rise in construction costs and interest rates. This effectively froze many co-operative projects.

1.6.3 Sources of Funds for Housing Co-operative Projects

The main sources of finance for the housing co-operative projects have been members' savings, loans from savings and credit co-operative societies and loans from banks and financial institutions. Whereas savings are supposed to be contributed regularly on a monthly basis, many co-operative members would prefer to wait to make a lump sum contribution (often from members' savings and credit group or other sources), when a specific project requiring a specific amount from each member has been identified and approved by the members.

In Savings and Credit Societies, loans are available to members at 12% p.a. interest rate over a maximum period of four years. Construction loans (bridging loans) or loans for land purchase are available from the Co-operative Bank at 2% below market rate (currently lying between 26-28% p.a.) to co-operative members on production of acceptable collateral security, normally in the form of title deeds or share certificates. The maximum repayment period is three years. Before the review of the Co-operative Act 1998, co-operatives were required by law to save with the Co-operative Bank. This has since changed. Most loans obtained from savings and credit co-operative societies are used to purchase land or build houses in urban or rural areas, to pay a deposit for an urban house, to meet members' children school fees or other family consumption needs.

Table 7 shows the level of savings that those applying for rehabilitation loans have to raise. Often these deposits are borrowed from savings and credit co-operatives and deposited into housing. The period between the requirement of deposit and the start of the rehabilitation loan repayment is therefore critical to borrowers. NACHU has provided a six months grace period before the start of loan repayments.

Table 7: Housing Projects Managed Directly by NACHU

	Project Name	**No. of housing units**	**Society contribution (KSH)**	**Loan amounts**	**When completed**	**Financier**
A	**Rehabilitation Projects (completed)**					
1	**Naivasha Site**	46	180,000	1,800,000	1993	Ford Found.
2	**Soweto Kayole**	32	162,000	1,620,000	1993	Ford Found.
3	**Embakasi**	18	135,000	1,356,000	1993	"
4	**Marura**	8	53,600	536,000	1993	"
5	**Huruma**	24	142,500	1,425,000	1993	"
6	**Freretown**	32	166,270	1,662,700	1992	"
7	**Mgunda**	13	72,250	722,500	1998	"
8	**Mkuyuni**	4	28,000	280,000	1998	"
9	**Bomani**	9	49,500	495,000	1998	"
10	**Salaita**	3	12,250	122,500	1998	"
11	**Uvumilivu**	14	98,000	980,000	1998	"
12	**Leo**	13	96,500	965,000	1998	"
13	**Ziwo**	25	147,000	1,470,000	1996	NACHU
	Sub-Total	**241**	**1,343,470**	**13,434,700**		
B	**New Rehabilitation Projects (Repayments to in start February 2000)**					
14	Kwa Rhoda	12	252,000	2,520,000	1999	Ford

						Found.
15	Soweto Kayole II	13	156,000	1,560,000	1999	“
16	Kilifi Muungano	9	100,500	1,005,000	1999	“
17	Uvumilivu	26	151,500	1,515,000	1999	“
18	Jasho	21	244,000	2,440,000	1999	“
19	Mgunda	1	8,000	80,000	1999	“
20	Mkuyuni	1	12,000	120,000	1999	“
21	Bomani	6	48,500	485,000	1999	“
22	Salaita	2	24,000	240,000	1999	“
	Sub-total	**91**	**996,500**	**9,965,000**		
C	**Group Loans**					
23	Voi Women	15	Materials	338,000	1997	ZeroCap
24	Kariobangi	118	1,264,700	12,647,000	1994	USAID
25	Itambya		60,000	600,000	1999	NACHU
26	Shelter Women		25,370	253,700	1999	NACHU
27	Kiriti Women	12	15,000,000		On-going	Self financing
	Sub-Total	**145**	**16,350,070**	**13,838,700**		
	Gross Total	**477**	**18,690,040**	**37,238,400**		

Source: NACHU Records

1.6.4 External Support to Housing Co-operatives

Since its inception in 1983, NACHU has received financial and technical support from a number of donors which include the International Co-operative Development Association, Co-operative Housing Foundation of USA, USAID/GOK, Africa American Labour Centre, Ford Foundation, Roof Tops Canada and Homeless International among others. This support has been used to purchase project vehicles and equipment, develop and print training materials, capacity building, institutional support, networking and exchange visits, between NACHU and other partners in Canada, Zimbabwe, South Africa and Uganda, as well as the establishment of a housing fund for housing rehabilitation/land purchase and support for implementation of individual co-operative projects.

Housing co-operatives receive no direct financial support from outside countries but have benefited from support given through NACHU. There are 22 housing co-operatives running house rehabilitation projects with loans from NACHU. This funding was obtained from the Ford Foundation at no interest rate. The loan fund, which is specifically for such projects, currently stands at KSh 20 million. Loans from the fund are generally small, ranging between KSh 120,000-140,000 at interest rates of 19% p.a. over 48 months.

The main constraint has been obtaining finance affordable to the members. High interest rates make many projects unaffordable, especially those designed to meet conventional local authority byelaws. The major housing finance institutions are unwilling to provide block co-operative mortgage loans, preferring to lend to individuals and the private sector. Even Co-operative Marchant Finance, the long-term lending arm of the Co-operative Bank, will only lend on the security of individual title, not on a joint title. Housing finance from conventional institutions is not available to co-operative building using the new ‘Grade 3’ building byelaws, which allow the use of more affordable materials and standards. Annex I provide an analysis of the various internal and external factors that have faced NACHU since 1983 when it was founded.

1.6.5 Kenya Union of Savings and Credit Co-operative Society

Kenya Union of Savings and Credit Co-operative Societies (KUSCCO) was formed in 1973 as an association of savings and credit co-operative societies initially based in the urban centres. KUSCCO's main objective is to promote and co-ordinate the interest of savings and credit societies throughout the country. Original functions were to provide accounting services, education and training, technical assistance and other needed services to the co-operative savings and credit members, such as the provision of office stationery and accounting documentation. KUSCCO has branch offices in all Kenya's eight provinces.

In 1988, after consultation with NACHU, KUSCCO established a housing fund known as the KUSCCO Housing Fund. The fund was formed with the objective of meeting the demand for long term finance from its credit union members. This has been made possible because of the increasing liquidity in the credit union system and because liberalisation has given co-operative financial institutions (SACCOs) greater scope to attract deposits. The fund is centrally managed, and separate from the operations of the individual SACCO and other KUSCCO operations. The SACCO members have requested that the organisation of their individual housing co-operatives and related construction activities be undertaken by NACHU. The Fund is still to start operation.

NACHU has been considering establishing a similar fund to provide loans facilities to housing co-operatives for the rehabilitation and erection of new buildings. NACHU has already developed a prospectus for discussion with the donors, who are being requested to put in initial capital. NACHU hopes, in addition to lending the funds to co-operative members, to be able to generate income to support its own activities and reduce its dependency on donors. However, administrative issues related to control and management of the fund is still to be sorted out. It is also not clear whether it is necessary to have both KUSCCO and NACHU Housing Funds. KUSCCO has the means to mobilise liquid funds from savings and credit co-operative societies, while NACHU has the technical know how to develop housing projects. Although a decision as to the choice of fund has not been made, a join approach would be the best alternative.

1.6.6 Co-operative Housing as a Model of Shelter Delivery

Co-operatives are significant in the informal settlements in improving infrastructure and generating income. The Maji and Ufanisi group in Kibera, which manages water and the recycling activities undertaken by Muroto group in Mathare, illustrate this. Generally there are numerous NGOs, CBOs and co-operatives in each settlement, building conventional housing using the finance to acquire land and build housing. Many co-operatives tend to give up if they are unable to source affordable finance.

NACHU was formed to support housing co-operatives. However, NACHU faces severe financial constraints. Co-operative members do not make annual subscriptions to NACHU as they do with savings and credit societies. NACHU was to charge a fee for services undertaken in building conventional houses; however, finance to support such projects has been difficult to come by. Although NACHU has been successful with rehabilitation projects for the poorer groups, these projects have been funded by the Ford Foundation grant and lent out at below market rates. Given the small size of the individual loans, NACHU is unable to generate sufficient funds from such initiatives to sustain its work. It had been suggested that NACHU consider cross-subsidising the higher and lower income groups in terms of charging for its services, but this is only possible if it can locate funds to develop the high income projects. In the meantime, NACHU remains reliant on donors, which have supported all its past activities including annual recurrent budgets.

The most promising initiative is the use of internal co-operative savings through the savings and credit movement. As noted earlier, SACCO members use short terms loans from SACCOs to invest in shelter. The KUSCCO Housing Fund seeks to mobilise excess liquidity in the SACCO system to be used as housing credit. The loans to be given out range from three to ten years at an interest rate of 1.5% per month.[15]

NACHU and KUSCCO should discuss the possibility of working together to promote one fund for housing, as this will provide greater access to domestic savings through the co-operative movement and will utilise KUSCCO's financial strength, as well as NACHU's expertise both in implementing housing projects and in operating the housing loan programme. KUSCCO/NACHU could also explore the possibility of using its funds to guarantee loans from other housing finance institutions or even having external donors guarantee some of the projects financed by the fund.

1.6.7 NACHU Rehabilitation Fund

The NACHU Rehabilitation Fund was first experimented in 1983 while working with two housing co-operatives in Mombasa (Kisauni and Freretown), to assist them acquire land on which they had been squatting and later to upgrade the individual members' houses. The Ford Foundation funded the two projects.

In 1991, the Ford Foundation approved a loan of US$ 50,000 to NACHU for lending on to the housing co-operative societies. Later in 1996, the amount was converted to a revolving loan fund for housing rehabilitation as part of NACHU's housing programme. All loans are lent on at below market rates (19% compared to 28% in the market) and are restricted to persons who are unable to obtain commercial financing from conventional sources.

To qualify for the loan, the co-operative must have been affiliated to NACHU for at least six months at the time of application. Members must be low-income and able to obtain three guarantors, provide loan security (title deed, letter of allocation, shares, power of attorney) and 10% deposit. The loans are extended over a maximum period of 48 months. The current maximum loan size is KSh 140,000. The loan application process involves the following seven steps:

- an assessment of the socio-economic profile of the co-operative members, their housing needs and status of settlements;
- selected members going through an education process, which includes defining member/co-operative responsibilities in the planned project; only those who attend the education sessions are considered for funding;
- those who qualify for funding being asked to raise the required 10% deposit; if a co-operative does not have a bank account, they are asked to open one; the deposits can be made individually in a NACHU rehabilitation account or collectively through the co-operative;

[15] Contribution of Co-operatives to Shelter Development in Kenya: By Graham Alder and Paul Munene.

- selected applicants being asked to complete loan application forms and other loan agreement documents for onward transmission to their Management Committee;
- the application forms, together with the other documents (guarantee form, power of attorney, loan agreement etc), are forwarded to NACHU, who may visit the project to collect any details that may have been overlooked;
- loan applications being reviewed by NACHU's Loans Committee for approval, those approved being sent to the Ministry of Co-operative Development for final authority (although ministerial approval is no longer necessary since the review of the Co-operative Societies Act in 1998);
- loans being disbursed to members individually in two instalments, with the second instalment being released only if the first is used in accordance with the agreed loan terms. A specialist house inspection is carried out before and after completion to ensure quality construction.

A loan management letter outlines the procedure to be followed in collecting arrears and bad loans. NACHU can enforce the security offered by the co-operative using the power of attorney to manage the property until full recovery of loan, or by invoking the Co-operative Societies Act and re-allocating the house to another co-operative member.

As at November 1999, a total of KSh 42,715,123 had been disbursed out of which KSh 23,399,700 financed 332 rehabilitation loans, KSh 13,838,700 funded 145 units under the group loan scheme and KSh 5,476,723 financed two resettlement projects. The loan size has averaged KSh 40,000 to KSh 85,000. Table 8 below indicates the size distribution of the first six rehabilitation loans disbursed by NACHU.

Table 8: Size Distribution of Rehabilitation Loans by the first six co-operatives.

Co-operative	No. of loans	Amount Disbursed (KSh)	Average loan size (KSh)
1 Marura	8	536,000	67,000
2. Naivasha	46	1,800,000	39,130
3. Soweto Kayole	32	1,620,000	50,625
4. Embakasi	18	1,356,000	75,333
5. Huruma	24	1,425,000	59,375
6. Freretown	32	1,662,700	51,959

Source: NACHU Records

The rehabilitation loans have so far been used for repairs, painting, extensions, cementing, windows, adding stone structure, replacing mud with timber/tin structure or simply building a new stone house. Economically, NACHU has been able to add 332 housing units to the market under this project. Co-operative members have also managed to increase the rent value of their properties by adding an extra room or improving existing facilities.

Repayment rates among rehabilitation members averaged 70% in November 1999 (Table 9). An analysis of repayment for the Bellevue project, for example, gave an average repayment of 71%(Table 11). The success of the rehabilitation project is seemingly not matched by good loan repayment. The poor performance has been attributed to irregular or inadequate income for the borrower, poor selection of borrowers by the co-operative society, lack of close monitoring and supervision of loans by NACHU and the society, or simply a loss of interest in the project by the members. A survey of NACHU loan defaults undertaken by K-REP in 1995 indicated that the majority (54.7%) of co-operative members depended on rent and business for their incomes. Leadership style and quality also account for differences in co-operative performance. Huruma Co-operative, for example, has good leadership and thus good repayment record. Bellevue has had leadership problems in the last two years, greatly affecting its performance.

Table 9: NACHU Rehabilitation Loan Performance as at November 30, 1999

Project	Amount Expected	Amount Received	Arrears	Repayment Rate (%)
Soweto Kayole	1,970,976	1,738,962	232,014	88
Marura	880,126	862,724	17,402	98
Embakasi	1,844,642	1,365,556	479,086	74
Huruma	2,209,596	2,098,853	110,743	95
Naivasha Site	2,993,254	1,467,531	1,525,723	49
Freretown	1,996,924	1,472,426	524,498	74
Ziwo	1,998,629	558,581	1,440,048	28
Uvumilivu	582,052	530,260	51,792	91
Mgunda	344,154	211,678	132,476	62
Bomani	289,788	250,340	39,448	86
Salaita	72,447	66,247	6,200	91
Mkuyuni	162,887	113,919	48,968	70
Leo	442,605	282,854	159,751	64
Total	**15,788,080**	**11,019,931**	**4,768,149**	**70**

Source: NACHU Records

Resettlement Fund

Although housing co-operative members have been responsible for identifying their own individual land, many are often unable to pay the lump sum needed to acquire the land. Homeless International supported NACHU to set up a revolving loan fund for land acquisition by co-operatives. The fund allows NACHU to pay off the land, then transfer the equivalent as a loan to the co-operative. So far, one co-operative society, Akwana Housing Co-operative Society has benefited from this fund. The terms of the loan include a deposit of 10% of the total loan with NACHU. Interest of 15% p.a. is charged over 48 months. The Homeless International Resettlement Fund had a cash balance of KSh 4,645,055.25 as at 30 November 1999. Akwana has since completed repayment of its loan.

With partial support from Goal International, NACHU also managed to resettle members of Bellevue Housing Co-operative in their current location. Table 10 below shows the amount of loan extended to each co-operative in the resettlement plan.

Table 10: NACHU Resettlement Loans

Co-operative	Deposit by members	Loan amount	When completed	Financier

		(KSh)		
Akwana		2,577,795	1995	Homeless International
Bellevue	420,000	2,898,928	1997	NACHU/ Goal International

Source: NACHU Records

1.6.8 NACHU Institutional Capacity

The ability of an organisation to translate its vision into action depends upon the availability, organisation and use of resources. NACHU is a strategic organisation with a good reputation in housing development in Kenya. To date, it has directly financed or supervised housing construction on behalf of 35 co-operative societies.

NACHU has an elected Board of nine people elected by housing co-operatives on a regional basis. The Board has clearly defined objectives and meets regularly to review the operations of the organisation. A possible strength of the board is that it represents the interest of their housing co-operatives and therefore has an incentive to push for programmes relevant to the members. Women are well represented in the Board.

Currently, NACHU has a total of 14 staff organised into three key areas of services i.e. Projects, Community Education and Finance. The General Manager is in charge of day to day management and direction of activities. The former General Manager resigned in November 1999 and a new Manager has taken over in an acting capacity. There is good teamwork among staff, although they agree that performance of rehabilitation projects could be improved by having staff with experience in lending or housing finance to follow up rehabilitation loans.

There is a good management information system for monitoring and keeping records of co-operatives and rehabilitation loans. Records of current repayments can be obtained upon request. NACHU has not, however, implemented the project-based accounting system as earlier recommended by Price Waterhouse consultants (1990). There are therefore no project-desegregated data to facilitate analysis of individual project viability. NACHU is currently subsidising the management cost of the rehabilitation loans and introduction of project-based accounting will help establish the actual level of subsidy, including the minimum staffing level required to manage the projects effectively.

NACHU depends on grants to finance its operations. Between 1993 and 1998, grant income accounted for just over 90% of its annual income. Although there is potential for NACHU to be sustainable through improved repayment rates on rehabilitation loans and the establishment of a Housing Loan Fund, the continued high dependency on grants threatens its sustainability.

1.6.9 Steps to Accessing Forex Loans

The following chart shows the steps that NACHU needs to go through in order to benefit from the housing guarantee scheme. The process assumes that funds are made available for lending to low cost housing co-operatives/CBOs from a local financier or an established housing fund. An external financier then guarantees the amount borrowed.

2. BELLEVUE HOUSING PROJECT

2.1 Project Description and Overview

The Bellevue Housing Co-operative was established in 1994 among slum dwellers located near Wilson Airport in Nairobi. The members' objective was to improve their living conditions. With financial assistance from NACHU and Goal International, the co-operative was able to purchase a piece of land in the town of Mavoko situated about 30 km from Nairobi. NACHU and the Mavoko Municipality provided technical advice on community aspects and on construction. By 1998, 139 households had been resettled out of a total membership of 160. The new settlement includes space for recreation and a nursery school. Women are fully involved in the management of the co-operative (as treasurer and secretary) and play an active role in the planning and implementation of their project.

The Bellevue project has helped in illustrating the importance of partnership between the community, the municipality, the government, NACHU and donors in the resettlement of the urban poor. The community got together to save and raise funds to purchase a piece of land on which to settle after being separately evicted while squatting on different sites. After NACHU's intervention, the municipality provided a temporary settlement area while the community searched for an alternative site to move to. NACHU assisted in identifying land for settlement and working with donors who provided the finance needed for lending on to the co-operative.

The total cost of land was KSh 3,296,500 out of which members raised KSh 420,000, Goal International provided KSh 1,198,140 and NACHU KSh 1,678,360 all as loan repayable over 4 years at 15% interest. In total, each member borrowed KSh 27,000 and makes a monthly repayment of KSh 567. Although the community had reserved a space for construction of a nursery school, none has been built owing to lack of funds. There is no water on site and community members have to walk two kilometres each day in search of water. The project also lacks toilet facilities. The area is rocky, making it difficult to dig pit latrines. NACHU recently managed to secure some grant funds and has assisted in constructing a pit latrine on the nursery school site for use by the residents. One facility is, however, not adequate to serve 139 families.

Currently the co-operative faces a number of problems:

a) Unemployment:

Most of the members are petty hawkers/vendors, carpenters, masons or simply subsistence farmers. They live in a new isolated area. The neighbours are rich individuals with nothing in common. The market for their products is limited to the members themselves. This is very limiting and, as a result, a number of businesses have since collapsed. A number of members, however, are able to sell their wares or food to the workers working in the adjacent industrial area.

b) Poor loan performance:

The loan performance as at 30 November 1999 showed the following position:

Table 11: Bellevue Loan Performance as at November 30, 1999

No. of Members	Loan status	Percentage
18	Paid off their loans	13
23	In arrears for up to 3	17

	months	
69	In arrears of 4-14 months	50
29	In arrears of over 14 months	20
139		**100**

Source: NACHU Records

Only 30 members are currently up to date with their repayment. This has been a very disappointing situation for NACHU, given the amount of work and effort that has brought the project to its current status. After deliberation with members, it was realised that the management committee in office had failed in its duties. A general meeting of all members was called and a new management committee elected in July 1999. As at 30 November 1999 KSh 2,051,406 was expected out of which KSh 1,451,564 had been received, giving a repayment rate of 71%. This rate is, however, distorted by inclusion of prepayments by the 18 members who have paid off their loans. Effectively, the repayment rate should be 30%.

c) Management:

Because of the history of their previous dependence on donors for relief food, some of the members in the previous management committee had been misinforming members that the NACHU loan extended to them was a grant which did not have to be repaid. During the last general meeting, NACHU invited Goal International to the meeting to clarify the position. After that, members agreed to give the loan defaulters up to 31 January 2000. Those over ten months in arrears by then will have their plots sold to other members who had not benefited from the project.

Members who will have cleared their loans or are up to date with their repayment by that date will be considered for rehabilitation loans. Many members are still living in plastic paper houses, although a few have managed to construct mud/timber/iron sheet houses. The maximum loan will be KSh 120,000 for a two-roomed stone house. It is expected that members will opt for a smaller loan, as they will mainly use timber for walls and iron sheets for roofs or iron sheets for both with a cement floor. Houses made of these materials are cheaper and easier to rent out at KSh 500 per month. Those who can afford the rent for a stone house will prefer to live somewhere other than Bellevue owing to a lack of water, toilet facilities and schools for their children.

Estimated Loan for 35 members	**KSh**
Estimated cost of improving 35 houses (35x KSh 120,000)	4,200,000
Technical Training and Administration by NACHU (20%)	840,000
Sub-total	5,040,000
Add: Cost of additional sanitation facilities	500,000
Total	5,540,000

The repayment per month per member over 48 months, inclusive of interest at 19%, will be KSh 3,886. This level of repayment is high, considering that they still have to make repayment towards the land purchase. Discussions are still ongoing about the possibility of reducing the amount to be borrowed by each individual member.

Need for Water

Members currently fetch water 2 Km away at a cost of KSh 3 per 20-litre jerry can or can pay KSh 10 per jerry can when delivered on site by horse driven carts. The cost of water to the Council is KSh 50 per 200 litres. The neighbourhood communities are connecting water to the adjacent plots at a total cost of KSh 1 million. NACHU has negotiated for two of its members with adjacent plots – Akwana and Bellevue - to share KSh 300,000 to be able to access the water. This will enable members to have one water point on site. To assist in loan repayment, the society intends to sell water to members and interested neighbours as an income generating activity. No member will be allowed to connect water to their individual plot until the water loan is paid in full.

2.2 Overview of Main Stakeholders

The main stakeholders in the Bellevue project are:

a) 139 members of Bellevue Housing Co-operative Society

A few of the co-operative members and some officials had created the impression that the loan given for land acquisition will finally be written off and had gone ahead to incite members not to remit payments to NACHU. All the members of Bellevue housing were former squatters on government land. Some of them were victims of eviction and had been receiving material support from charity organisations and individuals. The few misdirected members therefore still believe that they are poor and will not be forced to repay the loans. Five members of the group have never made any repayments and have refused to move to the current site for fear of losing free handouts if they change their status.

All members of the co-operative are not in formal employment. The majority are self-employed in petty trading or casual unskilled work. Few work as skilled masons and carpenters. Women are mainly hawkers. The average monthly income is about KSh 1500 – 4,000 per month.

Other than the share certificates that they hold as individuals, representing the number of shares bought in the housing co-operative, and the land title held in Trust by NACHU, Goal International and Bellevue Committee, the members have no other tangible security to offer for any loan. The majority of members are already over 50 years old (60%) and illiterate. Their current houses are made up of various categories and sizes ranging from plastic polythene papers, flattened tins, mud and wattle, timber, corrugated iron sheets and quarry stones.

b) The Bellevue Co-operative Society

The Society has a weak technical and financial base, lacks managerial skills and has had administrative problems at management committee level. A new management committee was elected in July 1999 and hopes to streamline the operation of the co-operative. NACHU is working with the management committee to provide relevant additional training to members.

c) NACHU as the Union representing affiliated housing co-operatives and a lender to Bellevue

NACHU believes that the Bellevue problems can be sorted out and have given the defaulters up to 31 January 2000 to pay up, or lose membership and a share in land allocation.

d) The Department of Co-operative Development which regulates the operation of co-operatives in the country (registration, advisory, policy guideline).
The recent amendment in the Co-operative Societies Act has reduced the powers of the Commissioner of Co-operatives in the management of the co-operative societies, and increased the powers of the societies' management committees and membership. The only risk will arise if the committee is not working as a team or lacks good leadership skills.

e) The Donors: Goal International and others that have provided funds to NACHU to on-lend to Bellevue members.
These rely on NACHU to recover the funds. Goal would probably like to see the loan repaid and the funds loaned to another co-operative/CBO. They demand sound financial management, transparency, tangible results and member-driven initiatives with an emphasis on the disadvantaged and the poor.

f) The local authority, Mavoko County Council, that has to approve infrastructure, house construction standards on Bellevue site, and also approve business licences to allow members to operate businesses on site.
The issue of business licences has been of concern to a number of residents. Annual licence costs vary depending on the individual activity. Licences for kiosk, greengrocery, hawking and selling of second-hand clothes have a fee of KSh 2000, hotel licences are KSh 2,800, bar licences are KSh 3,200 and butchery licences are KSh 4,000 p.a. A number of women hawkers indicated that they are unable to raise the whole amount at once but can do so by instalments. The inability of Mavoko Council to provide infrastructure services means that Bellevue members have to shoulder related financial burden.

g) The Ministry of Lands that had approved the change of use of land from agricultural to residential and issued the title deed.
Bellevue land is part of a bigger piece of land that was sold by Syokimau Company. The land, which has a single title, is currently registered in the name of the Trustees: NACHU, Goal International and Bellevue Management Committee. It is not, however, known whether Bellevue will still retain NACHU as a Trustee when the loan is fully paid.

2.3 Risk Analysis by Stakeholders

2.3.1 Political Risk

The political climate in Kenya is stable but undergoing transformation following popular agitation by the citizens for review of the Kenyan constitution. The climate is bound to change, as politicians are rather divided on what path to take in the constitutional review process. There are, however, no indications that the political environment might turn turbulent in the near future.

A political issue that is currently heading the debate is corruption. Government agency officials are known to stifle development efforts, because of their personal interests that they seek through public offices. However, the punishment for corruption, that saw the World Bank and the IMF withdraw financial aid support to Kenya in 1997, has prompted the Government to adopt a more pro-active strategy to wipe out corruption. The Kenya Anti-Corruption Authority was established in 1998 and has, as its primary responsibility, the elimination of corruption. To the extent that a structure exists for addressing corruption, the risk involved can be expected to fizzle out over time. This stands to be enhanced further through the existing stringent requirements of accountability and transparency on the part of the NGO, as well as the public and private sector.

The bureaucratic red tape in Kenya is minimal now, with the decentralisation of government ministries. NGOs also, once registered, have a broader leverage on determining how to pursue their goals with minimal government or political interference. The NGO code of conduct specifies the operational contraventions that might result to Government interference.

The Co-operative Act, Co-operative Rules, Society Byelaws and policy decisions made by its membership annually at its annual general meeting guide the operation of a co-operative society. The Co-operative Act was reviewed and a new Act came into effect in June 1998. The new Act has given Kenyan co-operatives a new vision free from state control. The commitment by the Government to eradicate poverty[16] has helped in setting up a supportive legal framework. However, the level of inflation that may erode purchasing power, speculation in land prices and adherence to stringent council regulations, will affect the ability of co-operative members to access shelter and related infrastructure.

In addition, the co-operative sector has been riddled with corruption. In some instances, members of the management committees have connived with smaller professional firms and local co-operative officials to defraud the housing co-operatives. Given the low literacy levels and ignorance of the literate groups among the very low-income co-operative members, the risk of their being cheated by the professionals is significant. Such groups therefore need professional guidance from NACHU, on issues of land purchase, sub-divisions and processing of titles, and how to deal with the bureaucracy at the Ministry of Lands and Settlements and the local authorities. The co-operatives still also need NACHU assistance in finance mobilisation and loan management, as well as in setting up the general administrative and financial structures to support their projects and lay a foundation for financial transparency and accountability.

NACHU is non-political and can develop projects in any part of Kenya in both the ruling party zones and opposition party areas. The Board representatives come from all seven regions of Kenya and not just one political area. All regions of Kenya are therefore adequately represented. Unfortunately, NACHU has not so far been able to spearhead formation of housing co-operatives in North Eastern Province, but with the new Act now allowing NACHU to provide services to non-co-operatives, it will be easier for CBOs to access NACHU services.

2.3.2 Environmental Risk

The formation of Shelter Forum and the Nairobi Informal Settlement Co-ordinating Committee have helped reduce instances of slum fires (used by unscrupulous absentee landlords to evict slum dwellers out of squatting land). In addition, Municipal Council raids on slum dwellers after their failure to honour notices of eviction have reduced, owing to the campaigns and dialogue by the two groups with the Municipal Authorities and leaders in Government.

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[16] Government has formed a Poverty Eradication Commission. This has helped in incorporating poverty eradication measures in all its policy documents.

Many slum dwellers have been encouraged to form co-operative societies and save to acquire land. Those who have managed like Bellevue feel much more secure. The directive by the President that the council stops harassing hawkers operating outside the central business district has reduced the council raids on slum dwellers businesses, highly common in the past. But even with this, the hawkers have no conducive climate for operation, and live in constant fear of attach. The high rate of unemployment in the slums, particularly of women and young people, coupled with related health problems compounded by the high HIV/AIDS prevalence, pose a big problem to participants' economic and financial ability.

Hostile high-income neighbours are also a constant threat to the poor. One of Bellevue's neighbours has encroached in its land and has refused to move, offering instead, to buy Bellevue members an alternative site to settle in, saying they do not deserve to live in that neighbourhood as they are an environmental risk to their neighbours.

Households produce most of Nairobi's solid waste. Piles of rotting garbage throughout the city constitute the most visible manifestation of Nairobi's decline. Garbage often lies uncollected for months. The collection is virtually non-existent in low-income areas and none exists in Bellevue. Nairobi's water resources are augmented by bore-holes; many residents like Bellevue's have often to walk for miles in search of water. Bellevue residents will be relieved when they finally have a water supply point on site.

Generally, the economic environment is very difficult for the low-income groups. Low wages, high inflation rate and a high dependency rate by low income earners reduce the amount of disposable income they can invest. However, judging by the experience of the credit programmes, targeting the poor that have recorded average loan repayment rates on micro-credit of over 90%, there is an indication of improved economic activities, hence ability to repay loans, among low income groups. Moreover, the commitment by the World Bank and International Monetary Fund to release the Enhanced Structural Adjustment Fund suspended in 1997, in the course of 2000, is likely to improve the economic environment in terms of investment and interest rates. In the housing sector, the low levels on income and the high unemployment rate in the slums, means families can only afford very low levels loans of not more than KSh 120,000 at very concessionary terms.

2.3.3 Legal Risk

The insecurity of tenure and the slow procedure of issuing title deeds for land converted from agricultural to residential use remain a big handicap to many low income families. Bellevue is happy to have come through this process. The issue of Trust Land ownership, although it helps to ensure security of the group's land, can be complex for those not familiar with it, as it requires total commitment by all members. The Co-operative Societies Act provides legal machinery for disciplining non-compliant members. However, the involvement of other non-co-operative members in the Trust Deed arrangement can complicate the whole process.

Resettlement of squatters in a new site like Bellevue makes site planning easy, as it is done before the people are moved on site. Where resettlement is done on an already occupied site, legal issues related to legal ownership of the site and relocation of those displaced by roads and other amenities, can be a complex issue - as learnt by the developers who were resettling squatters in the Mathare 4 project in Nairobi.

In the past (1992), politically instigated clashes have left many people displaced from their homes and their properties destroyed. Although this happened in rural areas, it indicates the level of destruction that can occur if land issues are not sorted out. Protected security of tenure is critical in providing confidence to those that may be willing to improve their shelter.

2.3.4 Institutional Development and Implementation Risk

The environment for successful development of the co-operative housing in Kenya depends not only on the policy framework in the co-operative sector and the policy framework of the Kenya housing sector in general, but also on the attitude of the target groups.

Regarding the co-operative sector, Sessional Paper No. 6 of 1997, 'Co-operatives in a Liberalised Economic Environment' and the revised Co-operative Act 1998 provide the policy and regulatory framework. Revision of the Act has greatly reduced the role of the government and increased the freedom and responsibilities of the co-operatives. Before this revision, the government was involved in all the co-operatives' affairs, including annual general meetings, management committee meetings and even the resolution of disputes. Many decisions made by the co-operatives were based on the guidance of government representatives. The movement consequently relied heavily on the government on the day to day running of the co-operatives. The liberalisation allows co-operatives to seek credits from a variety of financial institutions in addition to SACCOs and the Co-operative Bank. Low-income families cannot, however, meet the lending conditions placed by the commercial banks.

As regards the government policy on shelter, this is currently under review. The proposed policy supports development of an enabling framework with direct interventions. The paper proposes consolidation of the various Acts currently regulating the housing sector i.e. the Housing Act, the Local Government Act, the Public Health Act, the Building Societies Act, the Physical Planning Act and the Housing Byelaws.

In the context of shelter needs and of poverty, official government policy is unlikely to have any significant impact. However, government participation in some shelter initiatives will contribute to a more enabling framework, including the introduction of more affordable byelaws and strategies to address informal settlements.

NACHU operations are guided by the Co-operative Societies Act 1999 and its own byelaws revised in January 1998. The current dynamic environment dictates an urgent need for housing co-operatives to re-structure and re-position themselves by adopting a business stance, build leadership capacity and embrace flexible and modern management systems as a sure way for growth and organisational development.[17] Although the government has liberalised the co-operative sector, NACHU will still need government support in terms of policy

[17] Mr. Kamande, Chairman NACHU at the Board and Management Induction workshop in Nairobi in August 1999.

change to facilitate faster delivery of low-cost housing, provision of finance and land where possible and the reduction of taxation level on members' savings.

NACHU currently faces a multiplicity of problems which include: shortage of affordable land for housing, high cost of short and long term financing, very low income-earning ability of most of its members and a poor saving culture, the lack of a proper savings scheme which could facilitate both short and long-term borrowing, and the reduction of donor funding towards housing and infrustructural development in Kenya.

NACHU therefore needs to move fast to design innovative funding mechanisms for housing and infrastructure development, to provide affordable sources of funding by mobilising finance from within the membership and from development partners. This, however, will depend on NACHU's fundraising capabilities, commitment by its various stakeholders, ability to undertake good and well planned projects and its ability to offer services at full cost recovery. NACHU should also extend its services to non-affiliated co-operative societies.

NACHU is capable of providing services to CBOs related to advising on appropriateness of a proposed site for development, producing designs and cost estimates, analysing member affordability and developing an affordable budget, producing bills of quantities where necessary and supervising actual project implementation (tendering, construction and supervision, inspection and assessment) to CBOs. In addition, training opportunities in the technical aspects of financial management, including assessment of candidates for housing loans, collection, recovery and repayments, are offered by NACHU's Community Education Department.

Experience has indicated that the co-operative model has advantages of reducing costs by acquiring land collectively, organising community self-help constructions, purchasing building materials in bulk and negotiating loans collectively. They can also foster community cohesion by facilitating opportunities to construct social facilities, such as nursery schools and support income-generating activities. The co-operatives' legal and regulatory structure is well set up, as opposed to the CBO one which has remained very loose. The requirements to register an NGO in Kenya are quiet rigorous; as a result many low income groups cannot meet some of the required conditions. Other than the CBO, the co-operatives are the next best alternative vehicle for the poor in implementing their housing projects.

Their disadvantages include pressure by members to have individual land titles, which sometime cause disintegration of the co-operative and inability to safeguard co-operative property from being grabbed by the rich. They have not so far been able to effectively mobilise short and long term finance for their projects. Poor leadership, limited knowledge and skills required to manage a housing co-operative, corruption and a lack of clear policies and strategies, are major bottlenecks to efficient operation of some of the housing co-operative societies.

Administrative and financial management of community-based organisations has been a major problem, owing to the low literacy level of membership and a lack of knowledge in the area of housing co-operatives management and development. NACHU should consider providing training in such areas at a fee. The training so far have been undertaken using donor funds. NACHU, rather than the CBOs, has mostly identified such training. CBOs should be encouraged to identify areas of weakness among their management systems and seek appropriate training to rectify the situation. Lately, NACHU has incorporated member need analysis in its education programmes.

2.4 Risk Management and Mitigation by Stakeholders

Despite housing such a large proportion of the urban population, informal settlements continue to be ignored by local authorities and urban planners. A baseline assessment by NACHU of Nairobi's informal settlements (1991) and their inhabitants revealed the following characteristics. The same fit the description of the Bellevue project.

- The roads are planned but not developed; this makes the place almost impassable during the rainy season.
- The drainage systems are within reach but not accessible to the settlements.
- Most of the houses are poorly constructed and need to be re-done or rehabilitated.
- The inhabitants have not been provided with water individually and have therefore to buy from the neighbours.
- The cost of putting up toilets is high; therefore most of them have no toilets or share very poorly constructed ones, which are often full, poorly covered, lack privacy and are not maintained.
- Houses are made of mud walls, old iron sheets or paper. Few have put up one or two stone rooms, which are permanent. Most floors are not plastered or covered.
- The majority of its residents have no formal employment and therefore no regular income.

The risks associated with investment in such projects are very high and could include inability to repay the loan or not using it for the intended purpose, and inability to construct or rehabilitate the houses to acceptable standards owing to lack of technical know how by members. Allowing rehabilitation means the lender loses control over the house design. Low literacy levels of the co-operative members and lack of personal commitment can also threaten operational sustainability. There is no insurance policy in Kenya that can cover rehabilitation loans against death or loss of job by the borrower. A number of Bellevue members have refused to move to the project site owing to the lack of educational facilities for their children.

The high cost of sub-division means most of the members cannot afford to pay for individual plot titles. Again, giving them individual titles exposes them to temptations of being bought out by rich landlords. While it is important to ensure security of tenure by members, foreclosure in case of default in repayment can be a complicated matter if no proper default procedure is agreed with members in advance. Even with guarantees, financial institutions and banks shy away from investing in low income upgrading schemes, saying they can be politically explosive. As in case of foreclosure, the expenses related far exceed the amount of loan extended, making it difficult for the banks to even try to recover the actual loans.

The NACHU experience indicates that rehabilitation programmes have been successful in reaching the low income target groups, and there are indications that, unlike many other programmes, the beneficiaries will not sell out to higher income groups. This is as a result of the community solidarity that has been engendered. Beneficiaries gain economically through sub-letting the extra rooms constructed as part of the house, and through improved living conditions.

NACHU has instilled a proper reporting system of repayment and is instituting strict monitoring procedures by itself and the groups. Use of the power of attorney given to the society to evict those who are completely unable to make repayments, and additional guarantee by three other members, help to put pressure on defaulters and give an incentive to all members to follow-up a defaulter. It is not the poorer beneficiaries who default in loan repayments but those who are actually able to pay.

Co-operatives with loans are advised to have regular meetings (each month) to strengthen monitoring and follow-up. Furthermore, some co-operatives have formed separate committees to follow-up defaulting members and make decisions on appropriate action to be taken over loans in arrears. There are also proposals to create self-administered loan insurance fund to cover related risks related to death or incapacitation. At times, poor repayment may result from poor selection of the borrower. A mechanism has been put in place to ensure that only those qualified to screen borrowers are involved in the exercise. The Department of Co-operatives should facilitate the formation of a Tribunal Court to assist in resolving differences among co-operative members.

The provision of mortgage protection cover should be investigated. This cover, however, is not available for participants over the age of 60. NACHU has already introduced fire insurance for rehabilitated houses, as this is reasonably affordable.

A need to introduce Project Accounting to be able to track down costs and be able to evaluate the economic viability of different housing projects, to reduce the current level of subsidy in the projects, has also been recommended. Societies are requested to buy individual shares in NACHU to confirm their ownership of the organisation and pay their loans on time to support NACHU's sustainability plans. Continuous training of co-operative members and the need to work very closely with them in the screening, management and administration of their project, will help build up capacity of co-operative leadership and help resolve a number of problems.

At the national level, the stakeholders have little control over the general performance of the Kenyan economy. They are not in control of issues that may discourage investors and therefore reduce opportunities for employment, factors that reduce their purchasing power and raise the level of inflation and interest rates. However, recent positive discussions between the Kenya Government and the International Monetary Fund (IMF) have sent some positive signals. The Kenya Housing Policy is under review. The proposed policy supports the development of an enabling framework with direct interventions. Hopefully, the government will soon come up with a comprehensive policy to address informal settlement problems.

Local authorities are being requested to allow use of Grade II Building Byelaws to help reduce the cost of houses constructed by low income families and therefore make them affordable.

3. OPPORTUNITIES FOR EXTERNAL OFF-SHORE FUNDING

Housing agencies in Kenya have an opportunity to access off-shore funding through two channels. The first option is by direct borrowing in hard currency from foreign banks, multilateral or bilateral donors and aid agencies. The second option is by working in collaboration with a local financial institution willing to lend funds for housing on provision of a guarantee by a foreign bank, donor or agency.

The collapsed USAID Private Sector Housing Guarantee Programme, planned in 1984 (section 1.33), was based on the second approach involving private local banks. The programme failed because USAID needed a Kenya Government guarantee to proceed. The government could not guarantee funds to the private sector and the issue of who bears the exchange risk could not be resolved to the satisfaction of all the parties.

If this Programme were to be reintroduced today, it would still not work as long as government guarantee is a pre-condition for lending, as the government does not guarantee any borrowing by the private sector (which includes private individuals) and does not require such borrowing to be referred to the Central Bank of Kenya.

The second option of having a local financier participating in lending for low income housing and infrastructure development, while a foreign financier provides such guarantee, was tried again by USAID on the Kariobangi project. USAID had given the Co-operative Bank cash amounting to KSh 10 million (the Bank having previously refused to rely on a promised guarantee by USAID and insisting on a cash guarantee) to enable the bank to provide the remaining funds to support completion of the required 526 houses and manage related loans. USAID had already provided US$ 1.2 million for the initial 118 units.

The bank initially agreed, but later changed its mind after receiving the money. Their argument was that small loans are expensive administratively, most of Kariobangi members were over 55 years old and could not therefore service long term loans, members relied on informal income which could not be verified, the individual members did not have individual plot titles. The bank policy does not allow group loans. But even if it did, the Kariobangi Society did not have the managerial and administrative ability to manage such loans. The Co-operative Bank is still holding the funds that have since grown to over KSh 20 million.

In 1989, NACHU supported the construction of 40 housing units for Kimute Housing Co-operative Society, composed of Primary School Teachers in Kisumu. NACHU designed the houses, provided all the architectural services and negotiated for construction finance with the Co-operative Bank. This was approved on the understanding that long term finance will be available from Savings and Loans Kenya, a long term housing financier. Prior to these approvals, the income levels and sources of Kimute members were provided to both financiers for verification.

When the houses were completed, Savings and Loan backed out of the deal. Among the reasons for withdrawal was the age of the borrowers. The bank argued that the age of the borrowers could not allow it to provide mortgage protection insurance cover for their mortgages. The bank could not lend to those unable to qualify for mortgage protection insurance cover. The Co-operative Bank was therefore forced to convert the short term loan into long term mortgages and manage the loans directly.

While off-shore lending provides opportunity for local financiers to access cheap sources of finance, and if successfully implemented could lead to the provision of additional housing and infrastructure services to low income members, local financiers argue that the risks associated with such investments far outstrip the anticipated benefits. Based on the Kariobangi experience, it is unlikely that any local financier will be willing to finance Bellevue Housing Project, even with external guarantee. Generally, issues of capacity building for beneficiaries and institutions involved need to be critically addressed before any guarantee arrangement is considered.

The only possible option is for the co-operative sector to mobilise its own initial finance for housing, for example using the KUSCCO Housing Fund or NACHU Rehabilitation/Pool Fund (section 1.62). This, however, will involve examining the operation of the two funds and choosing the best option. KUSCCO Housing Fund is already lending for housing to individual members of savings and credit co-operative societies. The NACHU pool fund is still at the planning stage. Both institutions understand well the needs of low income co-operative members. The difference, however, is that the majority of KUSCCO's members are in formal employment and therefore have verifiable income, while the majority of NACHU's members derive their income from the informal sector. Administrative issues related to the control and the management of the selected fund will also need to be sorted out. SACCO members have already requested that the organisation of their individual housing co-operatives and related construction activities be undertaken by NACHU. External guarantees could then be targeted at the selected fund.

The implementation of low income housing guarantee programme is hampered by the risks associated with the inability of the borrowers to repay the loans, the difficulty of having a local financier willing to participate in the project and provide local financing, and access to usable land for development. Land is available but expensive. The inability of some of the borrowers to provide sufficient securities for loans (individual land titles) or guaranteed regular income, and the absence of a strong local NGO to support implementation of the planned projects, have also created obstacles. NACHU has the capacity, but needs to work hard to improve loan performance of its existing rehabilitation projects and charge what it actually costs to deliver such services. It is only then that it will be able to assess for itself whether indeed, investment in low-income housing projects is a profitable investment.

With regard to the inability of borrowers to repay loans because of the lack of income sources, a close working relationship between Bellevue and a micro-finance institution would be important. This would encourage micro-finance beneficiaries to run economic activities whose return they could use to service the housing loans. Absence of a deliberate intervention to improve economic activities among the low income groups jeopardises the sustainability of housing schemes targeting low income households. Since the majority of low income groups lack regular income sources, it would be wise to explore the potential benefit of building in micro-finance services into the co-operative housing model in general. Through this, the economic positions of the housing beneficiaries may be improved and hence enable them to service their individual house loans more effectively.

As an alternative, NACHU could work closely with micro-finance organisations, so that their beneficiaries could be facilitated or encouraged to save for housing. In this case, the micro-finance agencies will be used as entry point to accessing housing loans. Under this arrangement, only those beneficiaries performing well with their micro-finance loans will be considered for housing loans.

Lastly, housing co-operatives could be supported to develop their own micro-finance programmes for their members, particularly those who are unemployed. The only problem will be whether to limit the micro-finance programme to members only and thus limit its scope or open it up to other interested low income households. Whichever the option selected, there are bound to be operational difficulties that would require serious analysis, particularly since micro-finance has now become a specialist area with the technical means of realising success.

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