

# **Affordable Housing – Some Experiences From Kenya**

**Wafula NABUTOLA, Kenya**

**Key words:** Affordable, Mortgage, Sweat Equity, Home, House, Space, Settlements.

## **SUMMARY**

Shelter is a physiological human need. It is like food. So much so that even those who cannot afford it still need it. By its nature housing represents a major investment requiring a substantial capital outlay. In the majority of housing projects, the developer whether as a corporate or individual has to borrow, beg or steal! Kenya's GDP is reasonably large but is not growing at the rate that would be classified as booming. In fact the population growth at 2.9% is higher than the GDP growth at 1.1%. These are 2002 figures and therefore are quite current. The purchasing power parity is USD 346.00 per annum. The income per capita per day is USD 0.95! At that rate affordability of anything let alone housing is a big challenge.

I am interested in this study because I know that more than one third of Kenyans (12 million – 9 million in rural and 3 million in urban areas) in both the urban and rural areas do not have access to decent and affordable housing. This study seeks to uncover the root causes and effects of abject poverty and suggest ways and means of mitigating those circumstances.

# **Affordable Housing – Some Experiences From Kenya**

**Wafula NABUTOLA, Kenya**

## **1. THE CONSTRAINTS TO AFFORDABLE HOUSING**

In a recent study conducted by the Ministry of Roads, Public Works and Housing, the Department of Housing established that constraints in the urban areas are: Land, Finance, Building Materials and a practical Regulatory Framework. In the Rural areas it is Water, Finance and Building Materials that pose the greatest challenge. The Developer, the Champion, the Design and procurement process (conceptualization, manufacturing and construction) cannot be ignored – the design team, the contractor and his sub-contractors all seek to be paid, over and above their costs.

### **1.1 Land Constraints**

This is particularly true of the urban areas because the land is highly valued and is mostly in the hands of the central government and the local authorities. The only other landowners are speculators seeking to make a quick buck. This makes land inaccessible to the majority who need it most but cannot afford its premium price.

### **1.2 Financial Constraints**

The financial set up in the housing market in Kenya as indeed elsewhere is such that those offering funding seek to make a profit and declare dividends for the shareholders because that is what they are in business for. The money market is expensive due to relatively higher risks that raise interest rates. The exception is the central government and the local authorities who have obligation to provide decent housing for all their citizens. Unfortunately for a variety of reasons the revenue collected through taxes and service charges is not sufficient to cover housing needs as there are other priorities. Other strategies have to be devised to address the large and growing gap between what is needed and what is offered.

### **1.3 Regulatory Framework**

The government of Kenya has the Department of Housing whose mandate is to co-ordinate and direct all housing stock development activities. Unfortunately it is just a Department in the Ministry of Roads and Public Works, whose main activity is Roads, Bridges and other Public Works. The Housing Department has a major responsibility but may not have the right resources to move the mandate forward and since it is only a department within a ministry denotes the lack /absence of the seriousness it deserves. It has not been viewed as key by the government.

Moreover the Building Regulations are outdated and out of focus with the current realities. They specify only a certain narrow specification of materials and designs suitable for only one class of house construction.

## **1.4 Water Constraints**

Water is not readily available in the rural areas and is most expensive in the informal settlements.

## **1.5 Building Materials**

Building materials are very expensive and not necessarily of the appropriate types.

## **1.6 Design and Procurement Process as a Constraint**

Government could come up with tax incentives for low income housing development schemes.

## **1.7 The Developers (Investors)**

With the exception of the champion, they are in it for the money and ways have to be identified to contain this factor that contributes to costly housing

## **2 METHODOLOGY**

- I shall liaise with the Director of Housing in the Ministry
- I shall conduct a literature review
- I shall conduct several field studies in the major urban areas
- I shall liaise with the UN Centre for Human Settlement
- I shall liaise with the major Non Governmental Organizations like Habitat for Humanity International, and others of like objectives

## **3 EXPECTED OUTCOME**

- New national vision on housing, and government enablement
- New National Housing Policy: Separate for Urban and Rural settings
- New approach strategies based on facilitating the ownership of homegrown solutions
- Fresh look at current legislation concerning housing
- More community based and community driven strategies
- More NGO involvement
- Expansion of subsidized government housing

## **4 CONVENTIONAL APPROACH TO AFFORDABLE HOUSING**

In Kenya the way people approach housing has been conventional and presumptuous. However this has not taken into account the needs of the poor and consequently they have been left out. The main reason has been lack of shelter finance. This has been fueled mainly by: high interest rates for mortgage, income requirements, and strict conditions.

In Kenya especially, the financial institutions prefer lending for short-term high yielding ventures where risk is minimal. Housing Finance is the oldest and the most well known. These HFI (housing financial institutions) face a problem of meeting all financial needs placed upon them, because they compete for deposits from the meager savings available in a small economy. Others include the National Housing Corporation (NHC), which is state owned and channels public funds for lower and middle income housing through the local authorities.

#### **4.1 Mortgage Financing Criteria**

In this factors that exclude the lower and middle income earners from accessing credit and mortgage include:

- High eligibility criteria
- Proof of adequate and dependable income
- Requirement for provision of marketable satisfactory collateral with proof of ownership.
- General level of apparent uncreditworthiness making them unattractive prospective tenants when pitted against more credible seekers of the same finances.
- Predetermined payment periods and amounts whereas some of these people do not have a constant/regular income.
- Inability to raise the down payment.
- Where the general orientation is to extend loans for complete units, the ratio of down payment is usually disproportionately higher for the low-income groups.
- Existing housing finance institutions require lengthy and complicated loan procedures, which impose demands on the poor who can neither, spare the time nor comprehend some of the issues.
- Literacy levels of the majority, means that they are unable to comprehend and go through these procedures.
- In some institutions, the initial cold unhelpful and unprofessional behavior of the staff intimidates most low-income applicants. This makes them, give up all together.

### **5 BUILDING SOCIETIES**

There are only three operational building societies in Kenya out of a total of the 26 registered that is an indication of the shrinkage in the country's institutional capacity for financing housing.

### **6 MORTGAGE FINANCE INSTITUTIONS**

These finance individual dwelling houses, flats & commercial properties. They also sponsor estate development to ensure a continuous output of new houses. Loans give are for construction, to purchase houses or to extend existing houses.

Some of the conditions set out by mortgage finance institutions for house purchase loans include:

---

TS12 – Housing – Costs and Finance

4/17

Wafula Nabutola

TS12.2 Affordable Housing – Some Experiences from Kenya

FIG Working Week 2004

Athens, Greece, May 22-27, 2004

## **6.1 Housing Finance**

- The house to be constructed or offered as security must be constructed of permanent material.
- The applicant is required to maintain a mortgage related Savings Account with Housing Finance, which should not go below a certain amount.
- Requires a first legal charge against the title. (Loans are usually released after the charge against the title has been registered).
- The applicant is required to produce documentary evidence of age, which may not be on record.
- Maximum advance is determined by the borrower's ability to repay the loan. The loan should exceed three times the annual disposable income of the borrower.

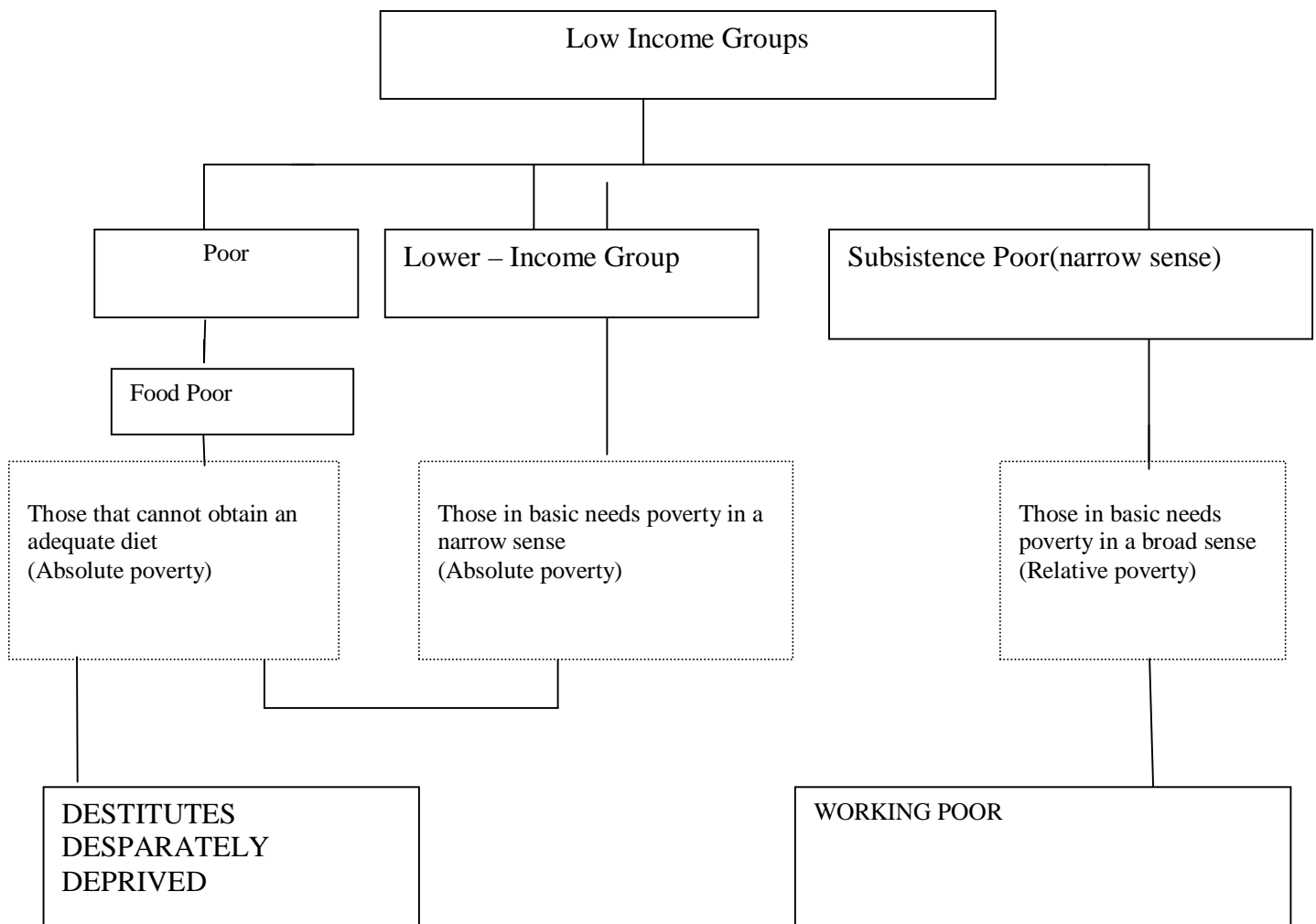
## **6.2 East African Building Society**

- A condition for borrow demands the establishment of the mortgage document covering the property to be financed, clear title, independent valuation.
- Borrowers are expected to meet stamp duty, legal fees and other consolidated fees bringing the costs in the order of 5% of the sum borrowed.

## **6.3 Savings and Loan**

- A customer/ client is required to make a deposit or equity contribution of 10-30% of the purchase or sale price on the value of the property (whichever is less).
- The client is required to show proof of ability to service the mortgage and the simple "rule of thumb" requires that the loan amount should not exceed three times the annual income of the borrower.
- There must be a valid sale or purchase agreement between the seller and the buyer in the case of existing properties.
- In new construction, the customer must acquire the land and obtain the title.
- The periods of lending are usually 10,15, 20 years.

While savings and loan programmes have been successful in attracting substantial deposits, the often create potential for difficulties. If the supply of housing does not keep pace with the number of savers who qualify for the mortgage loan, the incentive aspects of the saving system may be completely ended. Savers, who have met the requirements of the contract, may become discouraged if the housing units are not forthcoming.



Conceptualizing Poverty Source: United Nations Centre for Human Settlement, 1995

Most standard measures of poverty are closely tied to income and household budget levels. However it is imperative to extend the topic to well-being so that such primary parameters mortality and literacy rates are addressed as well. UNDP has calculated a human development index based on a composite of GDP per capita, health and education indicators, as well as income distribution measures. Housing is a central aspect of urban poverty and well-being. However and although related income poverty and housing poverty are not the same thing. Low income is a major cause of a housing poverty, but there are other housing-related conditions:

- Low supplies
- Ineffective land policies
- Inappropriate building codes
- Imbalances in tenure and finance.

#### 6.4 Distribution by Main Type of Lighting: Kenya Rural/Urban by Region (Province)

	Electricity		Pressure Lamp		Lantern		Tin Lamp		Fuel Wood		Solar		Other		TOTAL
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number
Kenya	864,088	14	72,027	12	1,157,313	34	2,797,639	44	310,874	5	28,755	1	124,276	2	6,354,972
Kenya Rural	199,943	4	43,809	11	1,707,326	36	2,403,253	50	305,907	6	26,933	1	88,907	2	4,776,078
Kenya Urban	664,145	42	28,218	2	449,987	29	394,386	25	4,967	0	1,822	0	35,369	2	1,578,894
Nairobi	339,888	53	12,124	2	137,158	21	141,785	22	211	0	338	0	15,298	2	646,802
Central	145,320	16	14,095	2	408,887	44	326,191	35	4,373	1	6,072	1	16,937	2	921,875
Central Rural	89,817	11	11,565	1	373,748	47	304,673	38	4,269	1	5,882	1	14,605	2	804,559
Central Urban	55,503	47	2,530	2	35,139	30	21,518	18	104	0	190	0	2,332	2	117,316
Coast	102,510	20	6,208	1	121,285	23	276,186	53	6,434	1	1,079	0	11,835	2	525,537
Coast Rural	8,157	3	2,103	1	56,119	20	194,984	71	6,121	2	921	0	6,251	2	274,656
Coast Urban	94,353	38	4,105	2	65,166	26	81,202	32	313	0	158	0	5,584	2	250,881
Eastern	57,474	6	9,316	1	434,790	46	389,470	41	48,619	5	8,802	1	7,959	1	956,430
Eastern Rural	25,985	3	7,909	1	402,305	46	374,265	43	48,379	6	8,522	1	6,954	1	874,319
Eastern Urban	31,489	38	1,407	2	32,485	40	15,205	19	240	0	280	0	1,005	1	82,111
N/Eastern	7,910	5	351	0	42,660	29	23,578	16	58,787	40	246	0	13,704	9	17,236
N/ Eastern Rural	870	1	234	0	30,942	25	20,272	16	58,601	47	232	0	12,995	11	124,146
N/Eastern Urban	7,040	31	117	1	11,718	51	3,306	14	186	1	14	0	709	3	23,090
Nyanza	46,628	5	9,875	1	241,213	25	642,086	67	4,119	0	3,280	0	18,328	2	965,529
Nyanza Rural	20,447	2	7,770	1	201,849	24	600,035	70	3,854	1	3,078	0	16,176	2	853,209
Nyanza Urban	26,181	23	2,105	2	39,364	35	42,051	37	265	0	202	0	2,152	2	112,320
R/Valley	141,057	10	14,595	1	579,752	39	523,062	35	186,440	13	7,576	1	38,554	3	1,491,036
R/Valley Rural	45,349	4	10,010	1	478,851	39	460,464	38	182,945	15	7,111	1	30,728	3	1,215,458
R/Valley Urban	95,708	35	4,585	2	100,901	37	62,598	23	3,495	1	465	0	7,826	3	275,578
Western	23,301	3	5,463	0	191,568	27	475,281	68	1,891	0	1,362	0	1,661	0	700,527
Western Rural	9,318	2	4,218	1	163,512	26	448,560	71	1,738	0	1,187	0	1,198	0	629,737
Western Urban	13,983	20	1,245	2	28,056	40	26,721	38	153	0	175	0	463	1	70,790

Source: Kenya National Population Census 1999 December.

Criteria, which determine the existence of housing poverty, are:

- High rent payment to income ratios
- High mortgage repayment to income ratios
- Substandard housing conditions
- Unfit Housing Conditions
- Substantially blocked access to adequate housing

## 6.5 Kenya Distribution of Households by the main Type of Human Waste Disposal

	Main Sewer		Septic Tank		Cess Pool		Pit Latrine		Bucket Latrine		B u s h		Other		T o t a l
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Kenya	452,550	7	136,352	2	24,397	0	4,628,243	73	26,862	0	1,050,943	17	35,625	1	6,354,972
Kenya Rural	19,423	0	30,198	1	4,068	0	3,672,444	77	14,198	0	1,014,923	21	20,824	0	4,776,078
Kenya Urban	433,127	27	106,154	7	20,329	1	955,799	61	12,664	1	36,020	2	14,801	1	1,578,894
Nairobi	310,643	48	32,618	5	9,481	2	273,974	42	4,652	1	6,893	1	8,541	1	646,802
Central	33,456	4	24,247	3	2,806	0	853,799	93	1,713	0	3,877	0	1,977	0	921,875
Coast	16,769	3	36,243	7	6,420	1	301,526	57	2,711	1	156,323	30	5,545	1	525,537
Eastern	14,945	2	10,047	1	1,229	0	775,519	81	2,918	0	148,090	16	3,682	0	956,430
N/Eastern	1,137	1	32,501	9	4,026	1	451,842	60	2,600	3	114,267	78	9,081	1	1,47,236
Nyanza	12,978	1	4,830	1	6,610	7	53,582	78	5,194	1	180,219	19	8,065	1	965,529
R/Valley	53,966	4	24,720	2	3,062	0	993,622	67	4,354	0	406,999	27	4,313	0	1,491,036
Western	8,656	1	3,322	0	15,440	6	50,076	93	1,060	0	34,275	5	2,594	0	700,527

Source: Kenya National Population Census 1999 December.

Affect the quality of life of:

- Pavement dwellers, Squatters, Slum dwellers

They also affect the public policy responses to low-income housing problems

Others are:

- General economic conditions; Inflation; Unemployment; Rapid changes in the rate of interest

## 7 HOMELESSNESS

The Housing (Homeless Persons) Act 1977 makes Housing Authorities responsible for certain duties in respect of persons who are:

- Homeless; 2. Threatened with Homelessness

Circular no. 90/77 explains British Government's policy while Circular no. 116/77 is the code of guidance prepared by the Secretary of State for the Environment. A person is defined as being homeless if:

- She/he together with any person who normally resides with her/him has no accommodation or
- Cannot secure entry to her/his accommodation or
- It is probable that occupation of her/his accommodation will lead to violence.



- His accommodation consists of a moveable structure and there is no place he is entitled to place it and reside in it
- Threatened with Homelessness if it is likely that he will become homeless within 28 days
- In Kenya we have to add a few more:
- Chuoms: Cartons laid along the Nairobi river by night and people sleep in them. In the daytime the same cartons are put to other use.

## 7.1 Household by Tenure In Kenya, Nationally and Regionally; By Province

District	Owned						Rented									Total	
	Purchased		Constructed		Inherited		Government		Local Authority		Parastatal		Private		Individual		
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number		%
Kenya	237,661	44	138,308	65	130,218	2	113,451	2	61,875	1	63,009	1	201,471	3	1,361,127	21	6,354,974
Kenya Rural	113,282	23	914,994	82	95,678	2	36,315	1	13,715	0	21,860	0	145,047	3	399,078	8	4,776,078
Kenya Urban	124,379	8	223,314	14	34,540	2	77,136	5	48,160	3	41,149	3	56,424	4	962,049	61	1,578,894
Nairobi	61,510	10	41,920	6	12,560	2	31,172	5	25,122	4	17,767	3	31,892	5	424,830	66	646,802
Central	32,933	4	617,259	67	26,502	3	13,664	1	5,073	1	5,931	1	39,829	4	180,684	20	921,875
Coast	26,013	5	282,147	54	14,760	3	11,587	2	5,235	1	7,702	1	14,010	3	164,077	31	525,537
Eastern	25,292	3	756,203	79	15,324	2	10,252	1	3,708	0	4,264	0	12,302	1	99,253	10	956,430
N/Eastern	2,696	2	130,734	89	1,603	1	2,787	2	177	0	252	0	854	1	8,133	6	147,236
Nyanza	25,538	3	758,823	79	12,302	1	9,955	1	7,104	1	7,927	1	13,763	1	130,115	13	965,529
R/Valley	49,215	3	976,917	66	35,672	2	27,632	2	13,416	1	14,232	1	83,734	6	290,194	19	1,491,036
Western	14,464	2	574,305	82	11,495	2	6,402	1	2,040	0	4,934	1	5,087	1	63,841	9	700,527

### Kenya Distribution of Households By Type of Roof Materials

	Iron Sheets		Tiles		Concrete		Asbestos Sheets		Grass		Makuti		Tin		Other		Total
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Kenya	4,053,067	64	142,472	2	144,845	2	82,066	1	1,532,507	24	239,613	4	27,596	0	132,806	2	6,354,972
Kenya Rural	2,866,757	60	31,786	1	8,018	0	31,479	1	1,511,572	32	183,403	4	20,838	0	122,225	3	4,776,078
Kenya Urban	1,186,310	75	110,686	7	136,827	9	50,587	3	20,935	1	56,210	4	6,758	0	10,581	1	1,578,894
Nairobi	437,769	68	76,623	12	105,794	16	19,848	3	259	0	720	0	2,114	0	3,675	1	646,802
Central	855,545	93	16,441	2	7,025	1	9,438	1	21,246	2	1,533	0	8,773	1	1,874	0	921,875
Coast	232,543	44	10,236	2	19,945	4	10,741	2	64,898	12	179,893	34	2,880	1	4,401	1	525,537
Eastern	684,142	72	9,066	1	1,852	0	8,410	1	219,081	23	9,492	1	5,364	1	19,023	2	956,430
N/Eastern	16,156	11	249	0	193	0	323	0	104,774	71	17,950	12	193	0	7,398	5	147,236
Nyanza	573,437	59	5,141	1	2,447	0	8,681	1	370,393	38	1,628	0	2,999	0	803	0	965,529
R/Valley	859,132	58	21,006	1	7,041	0	17,222	1	459,657	31	27,487	2	4,509	0	94,982	6	1,491,036
Western	394,343	56	3,710.00	1	548	0	7,403.00	1	292,199	42	910	0	764	0	650	0	700,527.00

	Iron Sheets		Tiles		Concrete		Asbestos Sheets		Grass		Makuti		Tin		Other		Total
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	
Kenya	4,053,067	64	142,472	2	144,845	2	82,066	1	1,532,507	24	239,613	4	27,596	0	132,806	2	6,354,972
Kenya Rural	2,866,757	60	31,786	1	8,018	0	31,479	1	1,511,572	32	183,403	4	20,838	0	122,225	3	4,776,078
Kenya Urban	1,186,310	75	110,686	7	136,827	9	50,587	3	20,935	1	56,210	4	6,758	0	10,581	1	1,578,894
Nairobi	437,769	68	76,623	12	105,794	16	19,848	3	259	0	720	0	2,114	0	3,675	1	646,802
Central	855,545	93	16,441	2	7,025	1	9,438	1	21,246	2	1,533	0	8,773	1	1,874	0	921,875
Coast	232,543	44	10,236	2	19,945	4	10,741	2	64,898	12	179,893	34	2,880	1	4,401	1	525,537
Eastern	684,142	72	9,066	1	1,852	0	8,410	1	219,081	23	9,492	1	5,364	1	19,023	2	956,430
N/Eastern	16,156	11	249	0	193	0	323	0	104,774	71	17,950	12	193	0	7,398	5	147,236
Nyanza	573,437	59	5,141	1	2,447	0	8,681	1	370,393	38	1,628	0	2,999	0	803	0	965,529
R/Valley	859,132	58	21,006	1	7,041	0	17,222	1	459,657	31	27,487	2	4,509	0	94,982	6	1,491,036
Western	394,343	56	3,710.00	1	548	0	7,403.00	1	292,199	42	910	0	764	0	650	0	700,527.00

Source: Kenya National Population Census 1999 December.

## 7.2 Distribution of Kenya Households by Type of Roof Covering Materials

	Stone		Brick / Block		Mud / Wood		Mud / Cement		Wood Only		Iron Sheet		Grass / Reeds		Tin
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number
Kenya	780,177	12	910,098	14	2,964,821	47	425,168	7	729,714	12	272,287	4	183,587	3	15,32
Kenya Rural	290,844	6	557,936	12	2,732,440	57	228,753	5	606,348	13	106,480	2	173,899	4	8,97
Kenya Urban	489,333	31	352,162	22	232,381	15	196,415	12	123,366	8	165,807	11	9,688	1	6,34
Nairobi	269,092	42	94,870	15	63,425	10	49,760	8	36,199	6	127,954	20	112	0	4,55
Central	217,581	24	66,803	7	247,603	27	18,764	2	290,376	32	72,630	8	1,430	0	6,03
Coast	59,023	11	117,537	22	229,340	44	78,692	15	4,007	1	3,697	1	28,690	6	56
Eastern	81,681	9	303,304	32	329,720	35	26,429	3	168,330	18	13,913	2	14,681	2	70
N/Eastern	4,120	3	10,338	7	7,752	5	2,232	2	5,025	3	565	0	106,029	72	14
Nyanza	16,801	2	117,268	12	699,008	72	107,204	11	5,024	1	15,298	2	3,463	0	43
R/Valley	124,070	8	122,502	8	828,587	56	93,965	6	217,536	15	36,405	2	27,698	2	2,63
Western	7,809	1	77,476	11	559,386	80	48,122	7	3,217	1	1,825	0	1,484	0	25

Source: Kenya National Population Census 1999 December.

## 8 WAYS OF MITIGATING THE HOUSING CHALLENGES

As we have noted earlier, lack of land, finances and a regulatory framework pose the greatest problem to affordable housing. As a result of this, people have resorted to non-conventional means of affordable housing.

The **United Nations** defines non-Conventional housing finance as any finance approach which by modifying loan agreement guarantees, collateral and for eligibility requirement permit low income households to qualify, and to afford housing loans for which they would otherwise be ineligible due to other limited financial and social economic circumstances.

Non-Conventional housing sources of finance have filled the void created by the mortgage finance institutions.

As a result of the limitations of formal housing finance system, the low-income earners have devised innovative means of housing delivery and financing in order to overcome the financial exclusion. These enable the low-income households to qualify for and to afford loans for housing or other ventures towards improvement of their living conditions. These methods include:

### 8.1 Informal and Community Based Finance Organization

These are community-based organizations that enable the low-income groups and other members of the community to participate fully and democratically in the development process and especially housing provision. They have their roots in the community where some are cooperative and others are not but they have the same structure and objective.

#### 8.1.1 Savings and Credit Unions

These are typically a group of 50-150 people who get together and start to save on a regular basis. The mortgage instrument is a practical and efficient tool in the field of housing in the developing countries because it has established itself over a long time and is protected by a system of well-understood procedures.

They are registered under legislation dealing with cooperatives. They have characteristics such as. A very low interest rate but commensurate interest on loan is usually charge in the declining balance.

- There is a common bond between the members.
- The members are from low-income groups.
- Profits are made through its lending are distributed to members.

It is ran by a board elected by membership and is usually divided into specialist committee and committee dealing with loan application.

Unlike formal finance systems, there is no need for mortgage documents and no need for title deeds. The reliability of their member is all that counts and there is a committee to judge that.

Housing loans are usually extended up to 5 years and may cover the total structure of the building depending on the amount of costs and standing of the member. The spread of interest rates also reflect realistically the expense (including losses) of running the union and the ability and willingness of members to pay for the services.

The significance of these unions lies in their suitability to the lowest income group and through their geographical spread. As far as can be ascertained, mobilizing funds in this way has been a net addition to the flow of savings.

### 8.1.2 Workers Housing

This is a means by which employer-financed housing for workers is categorized as non-institutional. The employer may be a small or large organization providing housing for its workers. Workers housing movements may provide rental accommodation and sometimes-small loans in cases of individual house development or tenant purchase scheme.

In many respects, employer housing for their workers is similar to public sector housing but since the employer provides houses they are only a realistic alternative to many poor workers. Ownership rights of existing company owned housing can be transferred to employers after a certain number of years against a commitment to pay market rates on normal terms. However there being several methods of allocating houses to employees, it caters for the needs of the low paid if it chooses to base the allocating criteria on the basis of income per month.

### 8.1.3 Housing Cooperatives

They have similar principles with Savings and credit societies only that housing is their role purpose and the units produced remain the property of the cooperative. The housing cooperatives are in such a way that distinct advantages are forthcoming to individuals by combining their efforts and resources through the housing cooperatives. They operate in such a way that they accumulated enough money, to construct the first dwelling they decide on the system of allocation which can either be 1<sup>st</sup> come 1<sup>st</sup> served or by lottery or by some criteria of need. The allotted continues until members have housed at which point the cooperative can be dissolved or continued as members decide.

They are also financial organizations in that some combine their limited financial resources to enable them meet at least a portion of their total development costs and to organize regular savings.

There are four basic types of cooperatives found in Kenya:

– *Limited Objective Cooperatives*

These are formed to perform specific services for the members such as acquiring land, subdividing it and giving titles. They are therefore temporary in nature, their goals are achieved when construction is complete and when individuals take ownership.

– *Multiple ownership cooperatives*

In this type, members hold title to their individual dwelling units but the owners of the unions own all the common areas and facilities. They are also called housing service cooperatives when they conform to the basic cooperative principle.

– *Tenant cooperatives*

These build and own a project and lease the dwelling to the members. In this case, the member occupant share of the property but they have equity in or own any shares of the property but they have a choice on the day-to-day running management of the cooperatives.

– *Mutual ownership cooperatives.*

They are also called single mortgage cooperatives. They retain title to the land, dwellings and facilities in addition to providing the services to a limited objective cooperative. The cooperative owned by the members manages and maintains and maintains the property on their behalf and upon completion of the project.

#### 8.1.4 Traditional and Other Informal Sources of Finance

These are methods of all forms of contribution such as self-help and community participation.

Self-help is such a traditional and informal activity with shades of sophistication among urban dwellers. Self-help has potential for generating more resources and a larger sense of participation in common affairs. Traditional and informal housing finance will and has continued for years to be a major part of housing investments. The stimulus continues to come from the social and physical supports provided by the public sector. Sometimes, it survives in spite of the removal of these supports. The objective has been to respond to differentiated demand in a way so latent. Talent and energies are mobilized to provide *utility and sweat equity* and satisfaction.

Under non-conventional programmes, various components emerge and these are: self help housing, site and service schemes, and squatter upgrading:

- The problem of Affordable Housing is essentially a problem of income – for the individual household. The lack of adequate income to access adequate or desired housing makes the housing problem essentially a poverty problem.
- Housing is usually available – often with high vacancy rates – at the high quality, high cost and high-income segment of the market. The low end of the market for the poor is marked with extremely tight and limited availability, with low or no vacancy rates.
- Housing finance Institutions in many developing countries are characterized by poor asset portfolio, and illiquid mortgage instruments partly owing to limited availability of secondary mortgage markets or any other forms of liquidity facility. Primary mortgage markets are also poorly developed, partly because the institutions operate under an often

chaotic and uncertain legal framework, doubtful property rights title, doubtful security of tenure and uncertain foreclosure procedures.

- Housing finance systems are usually not well integrated into the overall finance system and therefore operate at the margin of the national financial market, with consequent disadvantage in savings mobilization. This is often caused by the fact that financial resources are directed into housing finance by the regulatory body. Subsidizing lending at below – market rates of interest separates also housing finance from the capital market.
- Conventional Housing Finance Institutions are accessible and provide housing finance to the middle and high – income segment of the population. Public sector housing finance institutions have offered longer – term loans also to lower income groups, but even these have largely been restricted to borrowers with clear land title and certifiable income – a condition only met in public low – income housing projects. The vast majority of the population remains excluded. Typically, these institutions serve a minority of households at a high cost to the government, since housing finance institutions often enjoy support in the form of tax breaks, regulatory advantages and the allocation of captive savings. Given the limited resources, it is not surprising that the quantitative aspects, in terms of number of houses financed, is limited to total housing requirements.
- The importance of security of land tenure for the poor in the context of access to housing finance cannot be overemphasized.
- Conventional public and private finance systems offer virtually no credit solutions to the housing needs of the low – income and poor segments of the population. The poor, low and even moderate – income are the majority in developing countries and they cannot afford a loan for the least expensive, commercially built housing units. Reasons are low income, high construction costs and the high cost of long – term finance. Consequently, most poor and low/moderate income households build their own houses progressively over periods – ranging from five to fifteen years. Attempts therefore to transfer long-term mortgage finance from developed countries context to the low – moderate income majority in developing countries usually fail, since 60 to 80 percent of households in these countries lack the income stream criteria to qualify for loans to purchase the least expensive contractor – built housing unit. Alternative housing finance systems must therefore be devised if the poor are to be reached since, considering the economic situations; they are unable to afford buying houses on loan.
- Frequently made mistakes in poor and low – income housing programmes and projects were summed up as attempts to improve savings in the absence of strategies to improve incomes among the poor, the transfer of housing technological blueprints from developed to less developed countries and lack of respect for indigenous technologies, purchase of expensive land for low – income housing and excessive use of imported building materials.
- Some elements are absolutely necessary to address the access to housing and housing credit by the low – income and the poor, but such subsidies need to be more effectively targeted. Subsidized housing finance in the form of low – interest loans has failed to reach the target group in most cases. A shift to well – targeted direct targeted subsidies has proved more effective in many countries in Latin America (e.g. Chile, Costa Rica, Venezuela, Paraguay, Uruguay, Colombia, El Salvador, Ecuador, Guatemala and

Panama). This is also the case in South Africa and Indonesia. As a matter of fact, hardly any system of housing finance is known to be wholly unsubsidized, even in the developed countries.

- Micro – finance for housing has been suggested by several actors as an effective approach to the housing finance problem. This approach is premised on the perception that the micro – finance approach reflects and builds on the progressive income of poor families and the progressive mode of constructing houses. In the case of micro-finance for housing, loans are usually small and short term and are designed to suit the repayment ability of low – income families.

In this light, legal regulations prohibiting micro – finance institutions from collecting deposits tend to discourage savings by the poor in their communities and should be appropriately reviewed.

- Community – based micro – finance arrangements, which include loans for housing, as already successfully tried out in a number of countries and regions (e.g. Brazil, Mexico, Thailand, Senegal, South Africa, Chile, Colombia) have been identified as other effective alternatives to traditional or conventional housing finance systems. It is thus claimed that alternative credit systems are growing and are reaching the poor and the excluded. These are said to involve loans at unsubsidized interest rates, short terms and a range of collaterals including co – signers, para – legal title as well as full legal ownership, durable goods and pension fund contributions. Housing cooperative arrangements form part of this alternative system.
- It has been suggested by increasing number of actors in the housing finance system that the micro – finance option holds promise from a housing perspective for three main reasons:
  - First, it fits well with the incremental building process used by the poor and low / moderate-income majority. Most micro lending occurs for land purchase, improvement, and expansion – in effect, for the major phases of the incremental building process.
  - Second, micro – finance helps to solve two basic difficulties encountered by traditional mortgage finance in developing countries: the mismatch of the very short – term liabilities available on financial markets in developing countries with that of long-term mortgage assets; and a highly limited market caused by the high cost and unsuitability of conventional mortgage finance for the poor and low/moderate – income majority.
  - Third, micro-finance for housing can play a crucial role in reducing and better targeting housing subsidies. When they get a loan, households need less in subsidies to afford a modest housing solution.
  - Systematic scaling –up of some of these successful innovations is necessary to have a real impact on the availability of housing for the poor.
- Assisted self-help in housing remains a powerful mode for enabling the poor to provide housing for themselves. This enables even the poorest of the poor to contribute to their own housing through *sweat equity*.
- It has also been suggested that some “guarantee arrangements” not only with banks and financial institutions from the cooperative and mutual sector, but also including possible International Guarantee Fund for Housing, can be negotiated for wholesale financing to be released for on – lending to low-income borrowers for housing construction. This has

been successfully tried out in some countries e.g. Bolivia and India. Shelter Afrique – the Company for Habitat and Housing in Africa – has provided such guarantees for supply and provision of housing in a number of African Countries. The scope and impact of these ‘ guarantee fund arrangement’ seem as yet limited but with great potential for further development.

- The critical influence of macro – economic health and stability for the success of any housing finance system was acknowledged, considering that inflation is a mortal enemy of viable housing finance in Kenya. The extent to which interest rate risk is present in the operating environment depends largely on the ability of macro-economic policy to maintain stable non- – inflationary economic growth. Macro- economic policy to maintain stable non-inflationary economic growth. Macro-economic stability is crucial since instability leads to uncertainty and raises interest rates. In fact, the housing finance system can hardly be viable and effective in an environment of high inflation and high interest rates.
- All said, there is still the necessity for viable and sustainable conventional housing finance institutions to respond to the demands of households that can, with the right measures, use formal housing and mortgage markets to access longer – term credit or gain access to long – term secured, but non – mortgage credit and acquire housing in the formal market.
- Ideal Housing Finance Institutions should meet the criteria of wide credit availability, accessibility and sustainability to a wide spectrum of income groups. It is possible to improve the efficiency of the mortgage market and the product options while at the same time providing well – targeted and transparent subsidies to the poor and lowest income groups, particularly through land, services and infrastructure assistance.
- I believe that we professionals have a role to play in easing the burden of costly housing. We could offer *pro bono* services to persons who desire to own housing but whose income cannot support the engaging of the services of the design team
- Materials such as water can be harvested and stored for use in construction directly and also in agricultural activities like irrigation. I saw in Morocco the idea of cloud harvesting. When the water has been harvested it should be stored underground to prevent evaporation from the very hot sun.
- People especially in the rural areas ought to be encouraged to plant trees as timber forms the bulk of building materials and also is an agent for environmental conservation. It is a source of income. Reafforestation and forestry education are critical for the national forest cover.



## **BIBLIOGRAPHY**

- Wanyeki A.W. (1998) Housing Finance and Shelter Provision for the Low Income Groups: Comparison Of Institutional Housing Finance and Non-Institutional Housing Finance. A Case Study of National Housing Cooperation (NHC) and National Cooperative Housing Union (NACHU)
- United Nations (1978) Non-Conventional Finance For Low Income Households, New York
- Jogernson N.O (1975) Housing Finance For Low Income Groups With Special Reference To Developing Countries
- Frank Harris & Ronald McCaffer Second 1983. "Modern Construction Management"
- J. Rodney Turner McGraw-Hill Book Co. 1995 "The Commercial Project Manager"
- J. David Frame Josey-Bass Publishers San Francisco, 1996 "Project Management Competence"
- UNCHS (Habitat) "Financing Adequate Shelter for All – Addressing the Housing Finance Problem in Developing Countries"2002

## **CONTACTS**

Mr. Wafula Nabutola, M.Sc.  
Convenor (Chairman)  
Planning and Environment Committee  
Nairobi Central Business District Association (NCBDA)  
5<sup>th</sup> Floor International House  
Mama Ngina Street  
P. O. Box 340296  
Nairobi  
KENYA  
Tel. + 254 020 219 412  
Fax + 254 020 3208 1150  
Email: Nabutola@Jubileekenya.com