

INNOVATIVE FINANCING FOR IMPROVEMENT OF SLUM CONDITIONS

STRATEGIC INTEGRATION FOR SURVEYING SERVICES

FIG WORKING WEEK 2007
HONG KONG, SAR, CHINA

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May 14 2007; 1600 hrs

GAME PLAN

- Introduction
- Situation on Ground
- Issues in Housing Finance Operations
- Macro-economic Environment
 - Institutions
 - Globalization
- Micro-Finance
 - Subsidies
- Conclusions
- Recommendations

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INTRODUCTION

Fundamentally 4 shelter challenges in Slums

- Land and the tenure associated with that land.
- Finance (Urban/Rural) targets who can afford
 - availability, accessibility, affordability and administration
- Income profile
 - bottom heavy 10% of the people earn 90% of the income, yet the 90% with the least income, are the most in need of financing.
- Infrastructure?
 - Physical: roads, water, electric power, sewers
 - Social: Schools, Health, recreational etc

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WHAT IS SITUATION ON THE GROUND?

- **The People:**
 - Menial jobs, mainly as watchmen, cooks, housekeepers.
 - No Jobs so either self-employed or jobless and idle
 - primary targets for the millennium development goals (MDG).
- **The Land:**
 - slums occupy about 6% of Nairobi's total land surface, housing more than 60% of the city's total population. Govt and Private
- **Infrastructure:**
 - no roads, no running water, no electric power, no sewers, very few schools, no hospitals, a few dispensaries and public toilets.
- **Dwellings:**
 - mud wall houses, old GCI roofs, the floors are not damp-proofed
 - dwellings house six people on average typically in a 10' X 10' room.

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SCOPE OF INTERVENTION

- Viable Fund raising methods
- Identify professional micro-financiers with experience and knowledge in lending
- Draw innovative models or borrow from elsewhere successful
- Legal framework & Instruments in Kenya?
- Role of Central and Local Government?

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HOUSE FINANCE OPERATIONS ISSUES

- **Intermediation** - mobilization of a steady flow of funds, make them available/accessible.
- **Risks** - credit risk, cash flow risk, agency risk, system risk and political risk.
- **Mobilization of Funds**
 - size and diversity of funding resource.
 - availability and access to funds.
 - housing finance competes with other investment opportunities.

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ISSUES IN HOUSING FINANCE OPERATIONS (Cont.)

- **Interest Rate (Cost of funds)**
 - the price of capital to the borrower.
 - return on capital to the saver/lender.
 - close as possible to the market cost of funds.
 - real rate of return on deposit;
 - the risk as well as the actual or expected rate of inflation;
 - margin covering operation costs of financial institution.
- **The Legal and Regulatory Framework**
 - guidelines and rules of the game
 - prevent abuse of and damage to the system.

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ISSUES IN HOUSING FINANCE OPERATIONS (Cont.)

- **Risk of Default or Credit Risk**
 - ability of the borrower to repay the loan (credit risk).
 - Rising interest rates (system risk). 34% now 18% T. Bill 12%
- **The Mortgage Instrument**
 - the conventional form of securing a housing loan.
 - mortgage is a highly formalized legal instrument.
- In Tanzania, for example, the absence of a foreclosure law prevents mortgaged property from being easily converted into cash by the lending institution in case of default.
- For the poor mortgage instrument does not work because of:
 - The need for an acceptable title deed as collateral
 - The cost involved in valuation and registration
 - Lending policies that set minimum size of loan

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MACRO-ECONOMIC ENVIRONMENT

- High inflation and declining disposable income levels results in low levels of household savings. Fuel 60 Cents, now 80 Cents
- the non-income and low-income earners can neither borrow nor build from their own resources.

INSTITUTIONS Funding Housing

- NGO's Fund non-income and low-income groups.
 - they have built credibility amongst the slum dwellers
- Government finances middle and high income groups.
 - Housing Finance Co. and National Housing Corporation
 - KENSUP a project between UN Habitat and GOK

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MACRO-ECONOMIC ENVIRONMENT (Cont.)

GLOBALIZATION

- Net effect of opening up financial markets.
 - In Zambia has resulted in high interest rates and decline in the Kwacha
 - Between 1985 and 2000 average interest rates for mortgages yo-yoed between 20% and 90%.
 - In Kenya Micro-Finance gives Mainstream Banks run for their money
- withdrawal of subsidies ought to have a safety net.

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MICRO-FINANCE

- finance mechanisms that offer opportunities to save very small amounts, not handled by finance institutions
- offer small loans, usually for the purchase of inputs to small-scale entrepreneurs.
- Latin America has experienced improved housing when micro-credit directed to women. Idea not expanded into Kenyan housing market
Lack of legal property rights to guarantee the loan.

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MICRO-FINANCE (Cont.)

- Related to Micro-finance are Community Based Organizations (CBO's)
 - Saving groups have become a massive movement that could change the traditional fight against poverty.
 - The government has tended to leave this to NGO's and thus no desirable legal framework is forthcoming to guide this style though it has great potential.
- Challenges in community-based housing:
 - Whether there should be subsidies or not and what type
 - Whether loans to individuals or groups or organizations
 - Should credit be limited to the very poor or also be extended to low income earners.

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SUBSIDIES

- It is a moral question whether Kenya should enable its poorest citizens to access decent housing.
- subsidy in one form or another should be made an option so that those who can afford pay while those who cannot are assisted.

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CONCLUSIONS

- In Kibera as elsewhere, it is clear that housing problems are essentially an income problem.
- The poor; people with very low income or no income need support to get affordable housing.
- Majority of people living in Kenya do not have access to land or basic services
- Cannot afford a loan even for the least expensive commercially built housing units. Kes 7K for 1 Roomed; 11K for 2 Roomed
- Therefore housing finance has to be a major element of our National Housing Policy, which is an important element of Welfare Policy

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RECOMMENDATIONS

- The World Bank has suggested that
 - Positive real interest rates be
 - charged to borrowers
 - and paid to savers,
 - Long term objective should be the creation of a housing finance system increasingly integrated into the larger financial system and based on savings mobilization and allocation at market interest rates.
 - Adequate housing to families unable to afford it from their income
 - Direct well designed and targeted subsidies.
 - Elimination of policy and institutional barriers to housing.
- In post World War II Germany, for example, saving-for-housing schemes that combined contractual saving plans guarantee to provide housing loans when the saving plan has been fulfilled were very popular.

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RECOMMENDATIONS (Cont.)

- Compulsory saving schemes introduced in form of provident funds and social security funds.
- Harambee System
- Merry Go Round
- Land Tenure and Pricing – Land banks like SA
- Progressing Housing Process
- Information and Counselling
- Encourage Informal Production Systems – Income Generation

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RECOMMENDATIONS (Cont.)

- Free Housing for the People Below Poverty Line
 - In India they had the Minimum Needs Programme
- Public Private Partnerships (PPP):
- Access to Basic Infrastructure Facilities:
- City Planning tends to exclude Slums:
- Building Codes and Norms:
- Options based on subsidy, loans and beneficiary contribution – Cash, Labour or In Kind for EWS as in Korea, Bangla Desh and India

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● THANK YOU.

● **QUESTIONS?**

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