

Affordable Housing Finance for the Low/Middle Income Households:

A Case for the Establishment of a Mortgage Guarantee Facility

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Introduction

Extending mortgage lending to segments of the market which would otherwise neither have access to nor afford mortgage will definitely stimulate housing development through enhanced demand and thus have a positive impact on quality and quantity of housing and infrastructure, in short, on improving living standards and poverty alleviation.

To paraphrase an article of the IFC, When housing finance works well, it contributes to economic growth, household savings, and develops resilience to economic shocks. However, when the financial system does not provide funding at affordable conditions – in particular, offering repayment periods long enough to be compatible with individual incomes – three types of undesirable situations occur: Only the top income groups can afford comfortable housing, thus they build up real estate assets which contributes to widening wealth gaps; Most households are condemned to live in sub-standard conditions which, at best, are improved in an incremental way over many years;

Further, It is well known that housing represents a key engine of economic growth and is a major component of household wealth. Housing finance, therefore, lies at the intersection of three areas of priority for many emerging economies: (i) a strengthened and more accessible financial sector; (ii) an expanding housing market, and (iii) an essential part of any urban shelter strategy for the poor.

1 Shelter Situation Analysis

1.1 Basic General Data

Geography and Administration

Kenya is a developing country situated in the eastern part of the African continent. The country lies between 5 degrees north and 5 degrees south latitude and between 24 and 31 degrees east longitude. Kenya is almost bisected by the equator. It borders Tanzania to the south, Uganda to the west, Sudan and Ethiopia to the North, Somalia to the north eastern and the Indian Ocean to the south east. The country is divided into 8 provincial zones and over one hundred districts.

Kenya is a former British Colony which obtained its independence from in 1963. This was preceded by agitation for independence by various organised and unorganised groups including the Mau Mau. Since independence, the country has to a large extent been a multi-party democracy based on the West Minster parliamentary system mixed with the American Presidential system of government.

Demography and Health

The Kenyan population has steadily increased over the years from 7 million at independence to 10.9 million in 1969 and to an estimated 34.65 million people by 2007. Like many developing countries especially in Africa, Kenya's population is largely rural i.e. 70% of Kenyans live in rural areas. However, Kenya has continued to experience rapid urbanization for instance at independence, the urban population constituted 4% this has consistently risen to 30% in 1999.

The results of the previous censuses indicate that the annual population growth rate was 2.9 percent per annum during the 1989-1999 period, down from 3.4 percent reported for the 1969-1979 and 1979-1989 inter-censual periods. This decline can be largely contributed to the realization of the strategies contained in the National Population Policy for Sustainable Development. On the other hand, mortality rates have risen since 1980 mainly due to the HIV/AIDS pandemic, deterioration of health services and wide spread poverty.

Economy

The Kenya economy has been predominantly agricultural with a strong potential and bias towards industrialization. The Agriculture sector contributes 25% of the Gross Domestic Product. coffee, tea and horticulture are the main agricultural export commodities; in 2002, they jointly accounted for 53% of total export earnings. The other major contributing sectors of the economy are tourism, and manufacturing.

After experiencing moderately high growth rates (an average of 7%) during the 1960s and 1970s, Kenya's economic performance during the last two decades has been far below its potential; between 1996 and 2002, the GDP hit its lowest level i.e. 2%. As a result, per capita income in constant 1982 prices declined from Kshs 3,813 in 1990 to Kshs 3,360 in 2002. The number of people openly unemployed currently stands at over 2 million or 14.6 per cent of the labour force, with the youth accounting for 45 percent of the total. The majority of the unemployed, though educated, do not have necessary skills. In addition, the number of the working poor is staggering comprising primarily subsistence farmers, female-headed households and pastoralists. Disguised unemployment is also a serious problem, especially in the public sector.

The sharp deterioration in economic performance worsened the poverty situation. The number of people living in poverty is estimated to have risen from 11 million or 48 per cent of the population in 1990 to 17 million or 56 per cent of the population in 2001. Welfare monitoring surveys conducted by the Kenyan Government indicate that three quarters of the poor live in rural areas while the majority of the urban poor live in slum and peri-urban settlements.

The deterioration in the standard of living in Kenya is demonstrated well by the worsening in key social indicators over the last two decades. Illiteracy rates increased as enrolment rates in primary school declined while life expectancy and child mortality worsened. This disappointing development has further been complicated by the upsurge of the HIV/AIDS pandemic.

The major challenge facing Government is how to restore economic growth, generate employment opportunities to absorb the large army of the unemployed, particularly the youth, and reduce poverty levels.

Following the earnest implementation of the Economic Recovery Strategy among several government policy guidelines and blue prints from 2003, the economy has shown marked improvement. Real Gross Domestic Product (GDP) expanded by 6.1 percent in 2006 compared to a revised growth of 5.7 percent in 2005. Key sectors supporting this growth:-

- Hotels and Restaurants: 14.9 Per cent
- Wholesale & Retail Trade: 10.9 Per cent
- Transport and Communication: 10.8 Per cent
- Manufacturing: 6.9 Per cent
- Building & Construction: 6.3 Per cent
- Financial Intermediation: 5.5 Per cent
- Agriculture and Forestry: 5.4 Per cent

1.2 Shelter Related Fact and Figures

Housing plays an important role in generating employment and wealth creation. Adequate housing as social good also contributes directly to improved health and productivity. There is therefore need for informed interventions by Government and other partners in facilitating the production of decent and affordable housing for Kenyans within healthy, safe and sustainable environments.. This is only possible if such interventions are guided by accurate and reliable data on housing and related facilities. Unfortunately the housing sector in Kenya has over the years suffered from serious data gaps.

The housing situation in Kenya gives a distinct picture when comparing the rural and urban areas. While in the urban areas there is an acute shortage of decent housing, the rural areas experience problems of poor shelter quality. Within the urban areas, there is disparity in the housing and related services when comparing the formal/planned areas on the one hand and informal settlements on the other hand.

Housing Stock

Currently, it is evident from the available data that housing shortage is more acute in the urban areas than in rural areas. For instance in 1999, the housing stock in Kenya

stood at 10.4 million dwelling units¹ out of this stock only 19.5% is located in the urban areas leaving 81.5% of the stock in rural areas.

While the housing stock is concentrated in the rural areas, the quality of housing including the level of services is better in urban areas than in rural areas. For instance while only 12% of households in urban areas had mud/wood walls, over 50% of rural households had mud/wood walls: 74.7 % of households in urban areas had access to piped water, only 14.9 percent of rural households had access to piped water, 27.4 percent of urban households were connected to main sewers, only 1% of rural households were connected to main sewers: 32.1% of urban households were connected to electricity while only 1.9% of rural households were connected to electricity.

Slums and Informal Settlements

While the level of services is better in urban areas than in rural areas, it is in the urban areas that one comes across extreme cases of poor living conditions in slums/informal settlements. There have been varied estimates of the proportion of slum population in Kenya. While an exercise carried out in the city of Nairobi based on the 1999 Census figures came up with a figure of 30% of people in live in Slums, some studies have estimated it at between 40 and 60%. The estimate of 30% was based on a definition² agreed on during the mapping exercise. It is appreciated that the definition will determine the result obtained from any attempt to derive the proportion of slum population. The conditions of access to other services such as water sanitation etc are usually worse compared to the situation in urban areas in general.

Unauthorized Housing

Since urban areas are faced with serious housing shortages, the proliferation of slums and informal settlements and the construction of unauthorized buildings including extensions have filled the void. The construction of unauthorized housing, although

¹ Defined in this context as a place of abode or residence occupied by one or more households with a 'private entrance'. It is therefore a structure used by a household for sleeping, eating and entertaining guests. It is also not worthy to mention that a big chunk of this stock as per the census counts are actually not decent and functional. Ideally this stock includes structures in informal settlements.

² A slum here refers to settlement that displays poor conditions in terms of access to water, sanitation and electricity; materials used for housing construction; congestion resulting from lack of/non-adherence to planning standards/regulations and lack of security of tenure.

currently accommodating many urban residents has contributed to the over-stretching of services such as sewer systems, water services, roads and other social and recreational facilities. The extensions have greatly defaced some residential estates to the point of reducing the value of property in such environs.

Rental Housing

While most households in rural areas (87.3%) own their dwellings, fewer households (23%) in urban areas own their dwellings; in fact a majority (77%) rent their dwellings. The fact that most households do not own their dwellings in urban areas should not be construed to mean that they are all renters by preference. This could probably be a pointer that factors such as cost of building materials, land, housing finance and existing housing financing mechanisms are a major hindrance to home ownership.

Congestion

Congestion in residential housing is mostly experienced in urban areas and more particularly in slum and informal settlements as opposed to rural areas. In Kenya the average household³ size in urban areas is 3.4. Considering the internationally accepted standard of at most 2 persons per room and noting that about 59% of households in urban areas live in single room dwellings yet only 40.3% of households were of household sizes of 1 and 2, gives a congestion rate of about 18.6% in the urban areas.

The following Table gives a glimpse of some household characteristics in Kenya.

	Household Size	Female Headed Households in %	Median Age of Household Heads
Kenya	4.4	36.7	25-29 years
Kenya Rural	4.8	39.6	-
Kenya Urban	3.4	26.3	-

Source: Kenya 1999 Population and Housing Census Analytical Report Volume X

³ A household refers to a person or a group of persons who live together in the same homestead/compound but not necessarily in the same dwelling unit, have common housekeeping arrangements and are answerable to the same household head. Members of a household are not necessarily related by blood or marriage.

Urbanization

In Kenya, the rate of urbanization has been on the increase. This is demonstrated by the increase of people living in urban areas from 5.1% in 1961 to 20% in 1999. This has inevitably strained the existing services in urban areas including housing.

The main shelter problems in Kenya revolve around the following issues

- Lack of affordable and decent rental housing
- Lack of or non-adherence to planning standards
- Lack of serviced land for housing development
- High costs of building materials
- High costs of housing finance resulting in low levels of home ownership
- Insufficient investment in low-cost housing especially by the private sector which is one of the factors that has contributed to the mushrooming of slums and informal settlements

Some possible solutions to the shelter problems include but not limited to:-

- Review the institutional and legal framework for housing development in Kenya by facilitating the enactment of the Draft Housing Bill
- Introduce targeted housing incentives in the sector to especially encourage private sector investment in low-cost housing, employer-employee housing and rental housing
- Initiate a line of funding and implementation of a national housing infrastructure programme
- Start a mortgage default insurance company

1.3 Housing Policy

The post independence policy intervention in the housing sector was the formulation of Sessional Paper No. 5 of 1966/67 on Housing Policy of Kenya.

The paper is the first authoritative statement by the government on housing problems confronting the nation and how the programme for its solution was to be planned and administered. In the Sessional paper the main principles that guided the development and control of housing in Kenya were outlined under five main headings thus:

- Urban and Rural Housing Policy

- Finance for Housing
- Administrative Organization
- Housing Programme
- Research and Education

This housing policy stipulated national housing policy and the supervision of the housing programmes for the country as a whole must rest with the government through the Minister responsible for Housing. However, between 1966 to date there has been a housing policy statement in every development plan with emphasis placed on low-cost housing in both rural and urban areas.

However, since the late 1980s, government policy on housing shifted from direct involvement in provision of housing to facilitating the private sector provisions where free market forces would determine the demand and supply for housing following donor pressure, within the structural adjustment programme. As a result of this shift affordable housing is no longer available to the low and middle income groups including the vulnerable groups especially in urban and peri-urban areas.

In 2004 the government passed a new policy framework which recognized various weaknesses in the previous policy. The current Sessional Paper No.3 of June 2004 on the National Housing Policy provided the basis for the consequent Draft Housing Bill 2006, which is currently under discussion.

While the 1966/67 policy emphasized the role of government as a provider of housing, the Sessional Paper No. 3 of 2004 recognizes the role of all partners including the Central Government, Local Governments, Developers, Private sector, Cooperatives, employers as well as NGOs and Community groups in the housing delivery processes. In this policy the government is largely a facilitator as opposed to a provider. In the new policy, the special housing needs of the poor and other vulnerable groups have been addressed at depth. Several approaches including slum upgrading have been proposed to address the housing needs of these groups. Such groups cannot be left to the private sector due to the profit making orientation of the private sector. It is in respect of the housing needs of the poor and vulnerable groups that the government has to go beyond the facilitative role and provide certain subsidized services and resources.

The overall goal of the housing policy for Kenya is to facilitate the provision of adequate shelter and a healthy living environment at an affordable cost to all socio-economic groups in Kenya in order to foster sustainable human settlements.

1.4 Actors in Shelter Delivery and their Roles

The main actors in shelter delivery process in Kenya include the private sector, individual households, cooperatives, mortgage finance institutions and banks, the National Housing Corporation, Employers, professional entities, Local Authorities and in some instances the public sector through various programmes such as the Kenya Slum Upgrading Programme and the Civil Servants Housing Scheme.

In the 50's and 60's, the national Housing Corporation and the Local Authorities collaborated to develop most of the housing in urban areas then. However, in the late 70's this momentum slowed down gradually leaving the housing sector in the hands of the private sector which have tended to concentrate on the upper echelons of income earners. This has greatly contributed to the current shortage of housing especially for the low income in the major urban centres.

1.5 Shelter Design

Physical Planning

Planning matters in Kenya are covered both by the Physical Planning Act (Cap) and the Local Government Act (Cap 265). This in essence makes local authorities to be planning authorities as well as the Director of Physical Planning.

Over the years despite the existence of an elaborate legal framework, the adherence to the planning regulations and standards has not been satisfactory. This has lead to the mushrooming of informal settlements in the urban areas.

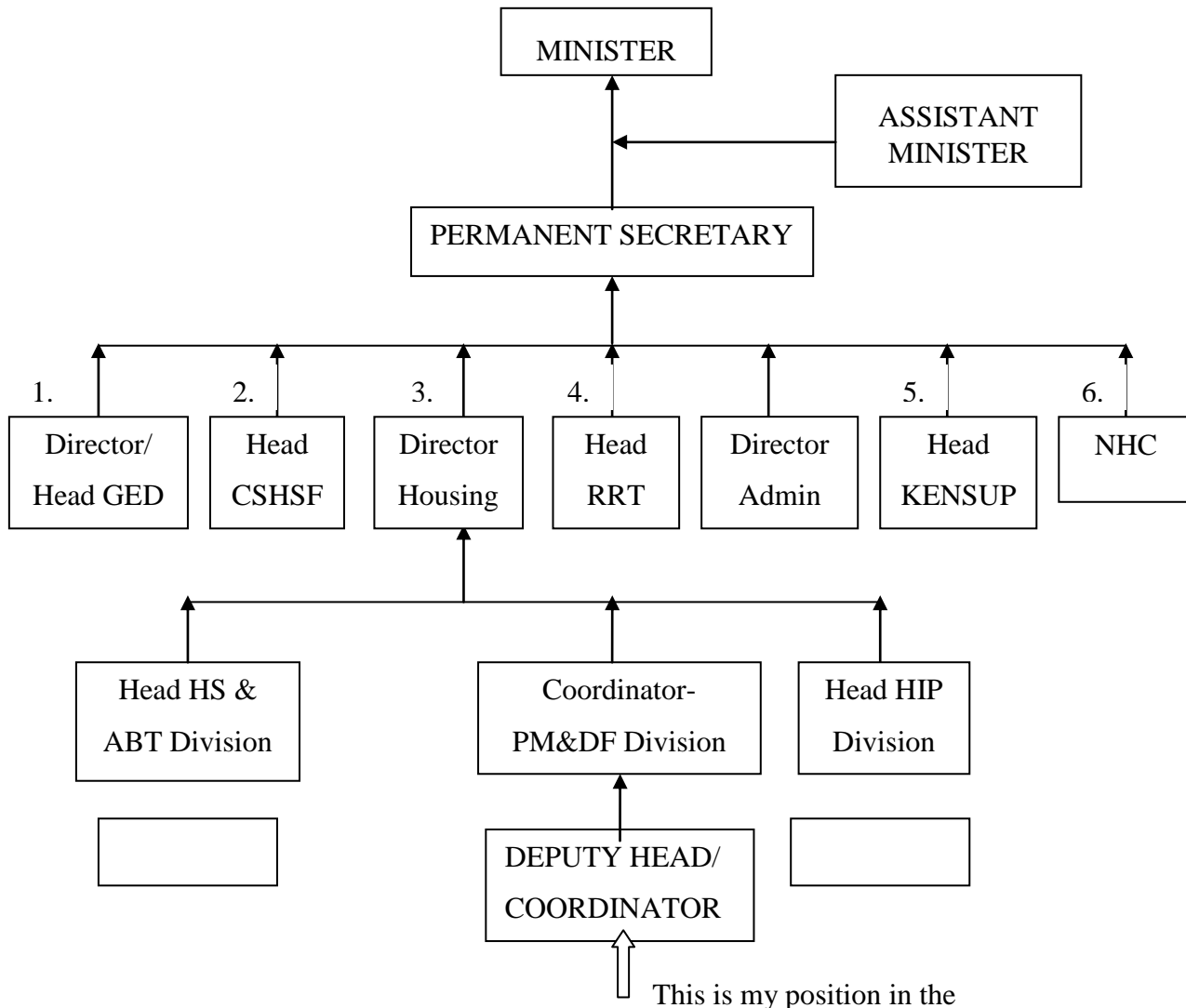
Land Use

In Kenya, there is currently no comprehensive and clear cut policy, institutional, and legal framework governing land use planning and development. However, a process was initiated about five years ago to come up with a comprehensive land policy in Kenya. This process has gone through various stakeholder consultation processes that has produced a draft land policy. The Draft Land Policy has not yet been debated in parliament to pave way for the preparation of a legal and institutional framework.

2 Organisation

The Ministry of Housing is the central government agency that is charged with the responsibility of the following:

1. Management of Government Pool Housing and Leasing of Public Office Accommodation and Housing for Constitutional Office Holders,
2. Housing for Civil Servants and Disciplined Forces,
3. Coordination of the implementation of Housing Policy, Affordable housing finance, National Secretariat for Human Settlement
4. Resolution of Rent and other disputes in the housing sector (Rent Restriction Tribunal), Control and regulation of rents - low income
5. Shelter and Slum improvement,
6. Housing development through National Housing Corporation.



3 Shelter Problem

For purpose of focus and impact, the shelter problem that I will concentrate on is *“inhibitions experienced by the low-income groups in accessing affordable housing finance”*

It should be appreciated that a functioning housing market especially the housing finance systems is a great stimulus for general economic growth. This was accurately captured thus in a paper prepared for Asian Development Bank in which the writers states that “Given its linkages to many sectors in the economy - including land markets, construction, and labour markets - housing finance is key to economic growth. It has been estimated that there are roughly 600 other industries that have links to the housing markets. A stimulus to the demand for housing will have a direct or indirect stimulatory impact on all of these industries. The availability of mortgage financing also stimulates the construction of new housing units. House construction and related industries are labour-intensive and thus provide significant employment opportunities; thus, a greater demand for housing provides a very large economic stimulus to the broader economy.”(Asian Development Bank: Housing Finance in Asia by Robert Bestani and Johanna Klein)

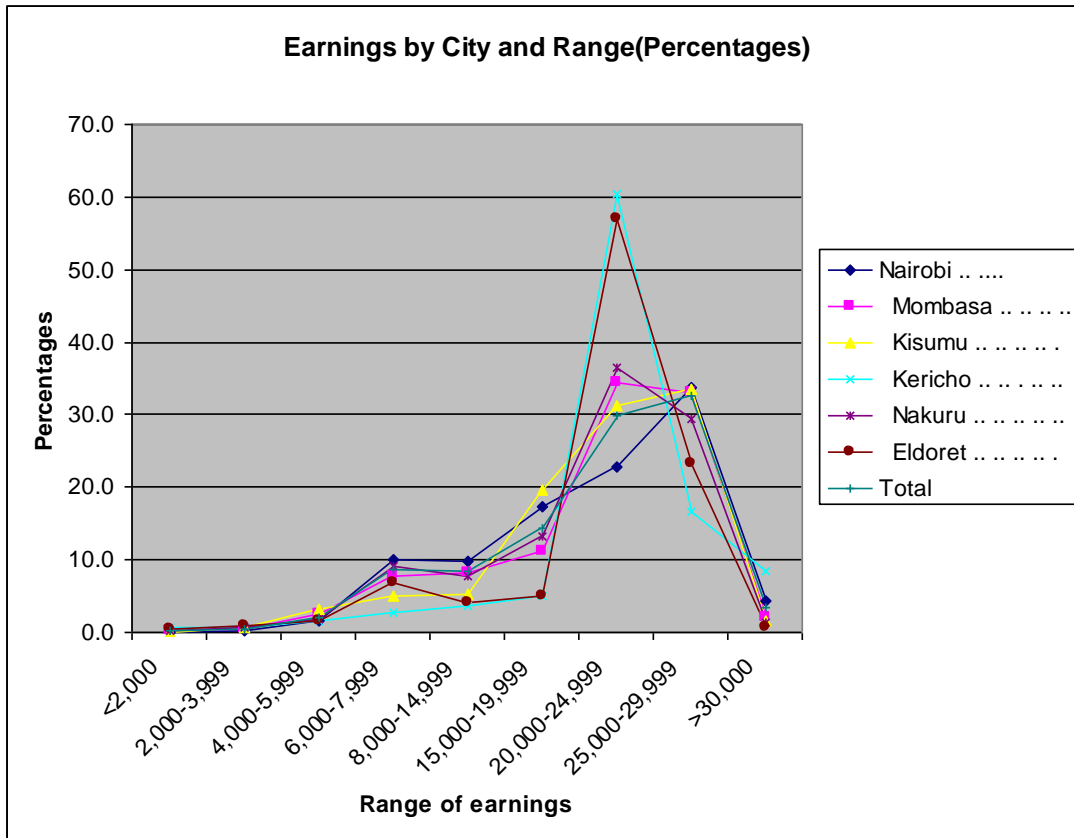
Background

Result from the Statistical Abstract(GOK:KNBS 2007) indicate that a majority (over 55%) of urban dwellers employed in the formal sector earn between Kshs. 20,000 to 30,000(approximately USD 300 to 420)) per month. On the other hand those who earn over Kshs. 30,000 per month account for only 3%. This then indicates that a vast majority of formally employed are basically low/middle income earners which meaning a great majority cannot access mortgage financing going by their incomes. The following table and chart illustrates the above scenario.

Table 1: Earnings(in Kshs.) per month in the formal sectors in major cities

Earnings (Kshs) City	<2,000	2,000- 3,999	4,000- 5,999	6,000- 7,999	8,000- 14,999	15,000- 19,999	20,000- 24,999	25,000- 29,999	>30,000
Nairobi	0.1	0.3	1.7	10.0	9.7	17.4	22.9	33.6	4.3
Thika	0.1	0.4	2.4	11.8	10.9	10.1	25.1	36.5	2.6
Malindi	0.0	0.7	3.0	7.4	8.0	11.6	32.7	35.4	1.1
Mombasa	0.2	0.5	2.5	7.7	8.2	11.2	34.4	33.1	2.1
AthiRiver	0.0	0.7	4.5	5.4	5.5	7.0	31.5	44.1	1.1
Kisii	0.1	0.7	4.3	5.1	5.4	6.2	35.3	42.3	0.6

Earnings (Kshs)	<2,000	2,000-3,999	4,000-5,999	6,000-7,999	8,000-14,999	15,000-19,999	20,000-24,999	25,000-29,999	>30,000
Kisumu	0.1	0.6	3.1	5.0	5.2	19.6	31.1	33.6	1.7
Kericho	0.7	0.8	1.6	2.8	3.7	4.9	60.5	16.6	8.5
Nakuru	0.1	0.6	1.8	9.2	7.7	13.2	36.5	29.3	1.4
Naivasha	0.1	0.4	4.1	7.6	10.1	8.6	24.0	44.1	1.2
Kitale	0.6	0.4	2.8	5.4	5.8	6.8	42.9	33.3	2.1
Eldoret	0.5	0.8	1.6	6.9	4.0	5.1	57.1	23.2	0.7
Webuye	0.0	0.4	3.3	9.9	8.8	16.1	18.8	41.3	1.4
Kakamega	0.1	0.5	4.0	5.5	6.1	10.2	30.1	41.5	1.9
Total	0.2	0.4	2.1	8.7	8.5	14.4	29.9	32.6	3.3



- Acute housing problems are experienced more in the Urban areas
- Many(80%) households rent their dwelling in urban areas
- Housing is mainly private sector driven with minimal practical government intervention or production of massive social housing or even low cost housing especially in the last 25 years
- The private sector has successfully delivered housing for the upper echelons of the income groups (basically houses costing above Kenya Shillings 5,000,000 an equivalent of USD 71,500 and above are readily available). However, the private developers have largely shunned the

lower-middle and low income housing(house costing less than Kshs. 2,500,000 an equivalent of USD 35,000) mainly due to their perceived less returns

- High costs of Housing Finance (interest rates on mortgages ranging from 15% to 20%) The less one earns the higher the interest rates. Generally Banks consider low-income earners as “high risk” hence the unwillingness of the financial institutions to lend money to the low-income
- Housing for rental and for owner occupation for the lower-middle and low-income groups have mainly been built or developed by individual efforts mainly at household level

The Problem

From the main components of interest rates calculation i.e.

- Cost of finance
- Risk
- Inflation
- Administration

It has been proved that in Kenya as in most developing economies, the component that most influences the interest rates is the risk element. This can be judged also by the fact that those with better incomes can now secure mortgage loans at even as less as 10% while for the modest income earners, the rates may go even as high as 21% effectively locking them out of the housing finance systems. In some instances, the mortgage providers will just put impediments(such you must be having a certain income to qualify for any mortgage) on modest income earners as a way of discouraging them from applying for mortgage.

4 Proposal for Change and Improvement

Proposal: Improve access to Affordable Housing Finance for the Low/Middle Income Households

The Ministry of Housing is charged with the responsibility of facilitating access to affordable housing in general and in particular access to affordable housing finance as stipulated in the Presidential Circular on the Organization of Government. As a

result the Government through the Ministry of Housing has more of a policy, programmatic and facilitative role.

Being an official in the Ministry working at the Department of Housing in the section dealing with housing development facilitation and monitoring of the sector, the section is responsible for promoting policy interventions that actualises the facilitative role of the Government in the housing sector in Kenya.

Because of the nature of the institution that I work with, my proposal for change is programmatic and thus is aimed at dealing with policy and strategic issues that will pave way for greater access to affordable housing finance for the modest income earners.

Particular Intervention

There is therefore need to tackle this factor(risk) that has resulted in high interest rates especially for those earning modestly. To this end, I therefore propose the formation of an Affordable Housing Finance programme that will pursue alternatives for affordable housing finance particularly the setting up of a Mortgage Guarantee Facility. This Facility will act as a guarantee/safety net/cushion/assurance for the mortgage providers in order to effectively minimize the risk factor in interest rates

The Mortgage Guarantee Facility will thus provide lenders with commercial risk cover . This cover is available where mortgage loans are granted in terms of the lenders usual criteria in keeping with agreed procedures between the lender and the Guarantee Facility and other prevailing legislative and administrative procedures. The Facility will also include in its operations processes including education aimed at enhancing the lenders repaying capacity. In the event of default, and following due process of law, if there has been a loss at a sale of the property in execution, the lender may claim up to the value of the guarantee issued.

The target Group

To address the situation, there is therefore need to facilitate the low/middle income groups particularly because of the following issues

They are mostly employed and therefore earning a regular income although modest(they earn between USD 100 – 500 per month⁴)

- These category of income earners have proved that they pay and not as risky as portrayed by the formal financial institutions including housing finance providers. The SACCOs(Savings and Credit Cooperatives) movements where these income groups have been active, remains vibrant and have experienced minimal default rates, an indication that the low/middle income actually pays
- This category is very sensitive to even the slightest tilt in interest rates because of their modest income.
- Lack of strategies aimed at addressing their shelter needs may leave them with no option but end up increasing the slum population for lack of alternatives

How the facility will work

This facility will not be in the form of money to be withdrawn, but rather, a fund set aside as a guarantee facility and therefore will be perfectly intact depending on default cases. The actual money to lend out to the low/middle income earners will be from the mortgage providers themselves. Ideally, this facility will be a tool to leverage resources from the private sector for low-income housing.

A coordination committee will be set up which will be services by a secretariat. The coordination committee will include housing finance providers, ministry of housing officials, international organizations and relevant professional bodies. In the initial stages the secretariat may be based at the ministry of housing. The Facility will be set up and managed on a Private-Private Partnership arrangement where the private sector especially the housing finance providers will perform their normal role in executing/administering the loans provided under the programme while the public sector will facilitate in matters regarding policy, legal and coordination. Basically, the applications from the households will be received at secretariat from where it will be established that the applicant can be a beneficiary of the programme through a set

⁴ The range of income to focus on will be subjected to research and discussions with all stakeholders to arrive at a reasonable target range.

criteria following which, the application will be passed over to the partner housing finance providers for the normal evaluation and execution.

For the initial set up capital, I propose a Public Private Sector Partnership arrangement where the Government, Private Sector (Pension Funds, Insurance Companies, Banks etc) and even international development bodies (Shelter Afrique, UN-Habitat among other) can contribute to the facility. A company may be set up with the contributors as share holders to oversee the facility. The board of the company may comprise the shareholders and key stakeholders.

To sustain the Facility and eventually remove the need for the original contributors to keep supporting the Facility, I propose that applicants be charged a minimal fee(say 0.25% of the amount of loan required or 0.25% out of the interest paid per annum) to be ploughed back to the 'kitty' of the facility.

Criteria for Qualification

Those who will qualify to be included in the programme should satisfy the following conditions

- Be employed and earning a regular income
- Earning between USD 100 and 500
- Be intending either to purchase or construct their first home

The decision to determine who participates in the programme as per the criteria enumerated above will be made by a secretariat/focal point based at the Ministry but includes representatives from the participating mortgage providers and other relevant stakeholders. Those accepted in the programme will be eligible to borrow between USD 7,000 to 40,000.

Options for setting up the Facility include

1. Fully capitalized by the Government; this is most preferable since the source of the funds will being public will make the end product cheaper and hence facilitate affordability for the targeted group. This may also not be subjected to legal difficulties.
2. Partly capitalized by Government, Private Sector and other international organizations; This would be the second preferred option and also will

have a strong basis should there be difficulties or change of priorities by any of the three partners.

3. Wholly capitalized by the Private Sector; this option although much easier to implement due to lack of bureaucracy, may end up with an expensive end product due to the expensive source of funds(private) and hence may not benefit the targeted group.

An effective monitoring/audit team will be constituted to verify that the beneficiaries of the programme actually satisfy the conditions set out above. There will thus be a reporting mechanism similar to those undertaken by the ministries dealing with other funds such as the Local Authority Transfer Fund(LATF). This will ensure that only first time home buyers and people in the stipulated income brackets are the beneficiaries and not speculators.

Strengths

- The Government has been receptive to similar ideas in the past , such includes the youth enterprise development fund and the women fund.
- The Government of Kenya has set up a Slum-Upgrading, Low-Cost Housing and Infrastructure Fund and other relevant funds from which resources could be drawn for this purpose. Since the proposal goes along way in addressing the objectives of these funds.
- There is precedence in the water sector in Kenya where the Public Sector (Local Authorities) has formed water companies.

Opportunities

- Banks in Kenya currently have more money for investment at their disposal and have lately been keen on investing on real estate.
- The Banks themselves have shown a willingness to lend to this category in the past if a similar arrangement is put in place
- A similar institution in Philipines⁵ has managed to influence interest rates downward to about 6%.

⁵ It may be prudent that the Ministry of Housing closely examines the mechanisms that have been put in place in Philipines that have managed influence interest rates downwards.

- Learn from the experience of the Home Loan Guarantee Company of South Africa which is however operating as a private entity but none the less in the same lines as the proposal in this paper
- Some research on the mortgage system in Kenya has already been undertaken by OPIC(Overseas Private Investment Company) of the US on similar arrangement although this was more inclined to setting up a mortgage default insurance company. But none the less was mainly geared to facilitating greater access to low-income earners to housing finance.
- Mortgage lending in Kenya has overcome poor legacy of the past and is growing rapidly

Weaknesses

- There may be need for a legal framework to enable the setting up of a company to administer the facility.

Threat

- The proposal may be seen by some quarters as derailing or in competition with proposals for the establishment of a Mortgage Default Insurance Company in Kenya

However, to deal with possible threats, the alternatives for set up enumerated earlier may be pursued strategically to minimize the threats.

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