

# HOUSING SUPPORT SERVICES FOR HOUSING MICROFINANCE LENDING IN EAST AND SOUTHERN AFRICA: A Case Study of the National Cooperative Housing Union (NACHU)

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## Introduction

This case study forms part of a research study conducted for FinMark Trust and Rooftops Canada into the provision of housing support products and services for housing microfinance lending in East and Southern Africa. The study aims to understand the extent to which housing support services form part of the housing microfinance process, and whether these services can be enhanced and if so, how. Using an action-research approach the study examines the kind of housing support products and services accompanying housing microfinance in six diverse organisations in Kenya, Malawi, South Africa, Tanzania and Uganda.

The National Cooperative Housing Union (NACHU) is an umbrella body representing about 250 affiliated housing cooperatives throughout Kenya. The organisation launched in the early 1980's and promotes the cooperative housing model through the establishment of housing cooperatives and by supporting their activities. Today NACHU has over 200 000 individual members; each member cooperative contributes KES 10,000 (USD 133)<sup>1</sup> as share capital and the cooperatives elect provincial representatives to serve as the Board of NACHU.

NACHU piloted its housing micro-loans in the early 1990s and has since evolved into an important provider of such finance to cooperative members. The organisation also provides housing support products and services to their clients<sup>2</sup> and argues that this has reduced the diversion of loan funds, supported housing development for occupancy and for rental incomes, and has mitigated the risks inherent in housing microfinance. This has increased client satisfaction levels and encouraged steady loan repayments which have improved the overall performance of NACHU's loan book.

NACHU uses the cooperative model for organising, and elements of the savings and credit cooperatives and the microfinance models for financing incremental housing. These models are proven to work well for low-income earners and both cooperatives and microfinance institutions are regulated in Kenya. This case study offers important lessons for other housing cooperatives about the challenges and benefits of providing support services and products.

To date, NACHU has depended on low-cost funds provided by development agencies for its loan capital. The organisation is unable to cope with the demand for housing micro-loans and faces a challenge from its members. The case illustrates the need to provide housing microfinance sustainably to make a significant impact on the demand for housing. It also demonstrates how difficult it is to increase product prices after existing clients are familiar with a lower product costs.

NACHU has sharpened its strategy and its approach to fund-mobilisation (including commercial loans, guarantees and increased member savings) in order to improve attractiveness to potential financiers so that the organisation can respond adequately to the high demand for finance from its members.

NACHU has also innovatively implemented real estate developments to generate revenue. By developing and scaling up such revenue streams NACHU may develop a sustainable cross-subsidisation business model to support growth.

## Contextual information

Kenya's gross domestic product (GDP) is slightly higher than most African states, a reflection of its larger population and dominant service sector which contributes the majority of GDP. Despite its relatively high GDP Kenya has a high level of inequality as the massive economic downturn in the 1990s and rapid population growth resulted in widespread poverty.<sup>3</sup> The vibrant service sector and high poverty drives people into urban areas causing a high rate of urbanisation.

Government supported housing programmes have been limited since independence and have mainly benefited civil servants and middle income people. Both public and private sectors failed to supply housing for people with low and moderate incomes. This and the level of urbanisation cause the majority of the population to live in inadequate housing<sup>4</sup> (often in slums). It also creates a rental market in big towns which includes the provision of extremely poor quality rental housing by slumlords.

Consequently the government's Strategic Plan for Housing focuses new housing provision mainly on urban areas with maintenance and service provision in rural areas.<sup>9</sup> They are also implementing the Kenya Slum Upgrading Programme (KENSUP) in close partnership with UN-HABITAT<sup>10</sup> although role-players are already questioning KENSUP's sustainability.

Kenya has a strong, well regulated financial sector but mortgage finance remains unavailable to most people except those with high incomes. Many microfinance institutions service low income people but usually do not provide housing microfinance.

Kenya: Relevant Development Indicators	
Human Development Index <sup>5i</sup>	0.541
% Population below the \$2 per day poverty line <sup>i</sup>	39.9%
GDP <sup>6</sup> in USD billions as at 2007 <sup>i</sup>	24.2
GDP PPP <sup>7</sup> in USD billion as at 2007 <sup>i</sup>	57.9
GDP per capita in USD as at 2007 <sup>i</sup>	645
Gini Index <sup>8i</sup>	47.7
Population size 2009 in millions <sup>ii</sup>	39.8
Average population growth rate 2005 -2010 <sup>ii</sup>	2.6%
% Urban population 2009 <sup>ii</sup>	22%
Urban population growth rate 2005 -2010 <sup>ii</sup>	4.1%
% Population with a lack of access to drinking water on their yard or plot <sup>iii</sup>	43%
% Population with a lack of sanitation <sup>iii</sup>	21%
% Population collecting water from points located 30 minutes away <sup>iii</sup>	14%

Compared with the rest of East Africa, Kenya has a strong regulatory environment for cooperatives and microfinance institutions. Kenya has tough and well-utilised legislation governing cooperatives which encourages good internal governance. It has a large cooperative movement and the institutional form is familiar to the population as cooperatives are used extensively in other sectors such as agriculture.

Government increasingly consults stakeholders, including cooperatives in policy formulation. Housing cooperatives have such credibility that KENSUP has adopted this model.<sup>11</sup> Recognising the need for legislative alignment, the Ministry of Housing notes that: 'stringent planning regulations and high infrastructural standards have been an impediment in the housing delivery system, resulting in slow pace of production and high cost of housing.'<sup>12</sup>

The contradictory statutes affecting land use and management are an arena where better alignment is needed. Poor urban land management has its roots in Kenya's weak urban planning framework which originates from a combination of capacity constraints and political interference. Privately owned urban land is unaffordable to those with low incomes. Furthermore, public land is badly managed and abused by politicians for political patronage which is easily accomplished since many slums are situated on public land.

Many people with low incomes provide their own shelter independently and incrementally while some rent from slumlords. The former is frequently achieved without housing microfinance; often using funds loaned from microfinance institutions for other purposes. The Kenyan government is positioned to play a largely facilitative role in housing provision intending to encourage private sector housing delivery. Considering this approach, the low levels of affordability of the population and the extent to which demand outstrips delivery, it is likely that the lack of delivery of low income housing will continue and that incremental housing development will continue to flourish - and along with it, a growing demand for housing microfinance.

<b>National Housing Cooperative Housing Union (NACHU)</b>	
Geographic scope	Located in Nairobi, Kenya with a nation-wide presence.
Mission	To contribute to improved shelter and quality of life on a sustainable basis, especially, for the low-income communities.
Objectives	To reduce poverty through human habitat working with housing cooperatives from the low-income segment of society.
Type of institution	A provider of housing support products and services and microfinance.
Sector	A non-profit non-government organisation (NGO) and registered cooperative under the Cooperative Societies Act (Cap 490) which enables NACHU to take savings deposits.
Target market	Members of NACHU affiliated cooperative societies (typically people, especially women, with very low and moderate incomes below KES 25,000 (USD 333) from rural and urban Kenya). Occasionally other organisations and people also access NACHU's non-financial services.
Loan book size	Overall outstanding loan book after loan loss provision at the 2009 financial year end was KES 47,568,361 (USD 634,245).
No. of outstanding loans	At the 2009 financial year end there were 187 outstanding loans.
No. of active savers	At the 2009 financial year end there were 2401 active savers (1,178 men and 1,223 women).
Total value of savings	Total value of savings as at the 2009 financial year end was KES 41,192,887 (USD 549,238).
Housing microfinance as a % of loan book	97%
PAR <sup>13</sup>	At the 2009 financial year end PAR 60 was 3%. <sup>14</sup>

## Housing support products and services offered

### Key role-players providing support

NACHU's staff and consultants are the primary providers of housing support products and services to their clients. Housing cooperatives affiliate with NACHU and use the organisation almost exclusively to address their housing needs. Members of affiliated cooperative societies rely on NACHU for various technical support services as sourcing this elsewhere is more expensive and thus unaffordable.

When necessary, NACHU works with a panel of preferred consultants to provide professional services. Different levels of professionals are engaged based on the needs of the task and better fees are negotiated since a steady flow of work is offered to the consultants.

NACHU occasionally partners other organisations for example, in one case NACHU organised the cooperative and provided the finance and then partnered with Practical Action (formerly Intermediate Technology Development Group / ITDG) who introduced alternative building technologies. NACHU has also collaborated like this with the City Council. Such partnerships are entered into considering the needs of the project and the possibilities for collaboration.

### Nature of support

NACHU provides an A to Z technical support service and contracts in additional capacity to provide any services which they cannot. They consider these services important for ensuring that loan funds are not squandered and that quality housing is built. This support is designed to promote and facilitate the development of cooperatives including sound governance and credit management. It also intends to facilitate tenure security and develop improved housing.

NACHU staff assist members to **access land and services**. They provide advice and professional services, offer legal assistance on the acquisition of titles, survey land, prepare land development plans and property valuations, access finance and lobby the authorities. In the case of Resettlement loans NACHU occasionally purchases land on behalf of cooperatives and may lend funds to purchase land if it will aid lobby efforts for infrastructure development.

NACHU developed a set of standard **house plans and costs** for use by its members. When necessary, NACHU conducts surveys to gauge income levels and assess existing dwellings and the state of a settlement. NACHU provides advice and design services for preparing and approving building plans.

NACHU provides **professional services** directly and indirectly. NACHU selects and contracts **professional consultants** (for example town planners, architects and engineers) from their panel and supervises their work.

The members voluntarily provide unskilled **labour** for their own and others houses. NACHU advises groups on house construction and assists their members with selecting **builders and artisans** like plumbers, electricians and carpenters. NACHU supervises the construction process and all the contractors involved.

NACHU provides advice on the selection of **material suppliers** and on **material procurement** (quantities and quality of materials needed, cost estimates). Group members however select the suppliers based on the quotations, place orders and take delivery of materials.

NACHU raises awareness about HIV/AIDS amongst its members and groups. Thus, the members and groups are compassionate toward people affected by the pandemic or with other **special needs**. Groups determine whether any particular provision is made for such people and it is common for group members to offer assistance.

Much of the support services described above are provided through **training** workshops or information sharing sessions. NACHU produced five training manuals and a number of tools to guide its training interventions. The training provided by NACHU addresses the establishment of new cooperatives including capacity building for effective governance of the cooperative (develop systems, structures, procedures). The training also educates cooperatives and groups about NACHU's loan products and terms, the management of

## FINANCIAL PRODUCT RANGE

NACHU provides a range of savings products and micro-loans for education, enterprise development and home improvements. Their housing microfinance loan products are:

- Cooperative Housing Mortgage Programme for purchasing land and constructing new housing. Loans are for a maximum of KES 500,000 (USD 6,667).
- Housing Rehabilitation Scheme for improvements to semi-permanent structures on land owned by the cooperative or their members. Loans are for a maximum of KES 200,000 (USD 2,667).
- Resettlement Programme for people facing eviction to purchase land and resettle. The maximum loan value is not stipulated.
- Infrastructure loans for installation of basic infrastructure (for example, drainage, water and toilets). No stipulated maximum value.

All these loans are repayable over 48 months.

The interest rate on all loans is 15%pa on declining balance. An application fee of 1% is payable (subject to a minimum of KES 100 and a maximum of KES 1,000 / USD 1.3-13) for all loans with the exception of housing related loan products where 2.5% is charged on the principle loan amount amortised for the loan period. The insurance fee is 1.06% of the principle loan value, payable on loan approval.

Loans are only advanced to members of affiliated cooperatives registered with the Registrar of Cooperative Societies. Loan applicants pay a registration fee of KES 500 (USD 7) for any loan and must have saved a 20% deposit with NACHU for 6 months and meet various other conditions. Insurance covers death and permanent disability.

50% of the loan value is disbursed upfront and the balance after NACHU's Finance department has assessed payment and the Technical department has assessed quality and verifies that the loan was used for the intended purpose.

NACHU has a double guarantee system for individual loans which are guaranteed by five group members and the cooperative. Individuals apply for loans through their groups and then through the cooperative. Loans are disbursed to the individual via the cooperative and the group. Members make direct payments to NACHU which are reconciled and monitored by NACHU and the group. In the event of default, the group, individual and guarantors are alerted to pay.

Borrowers must provide land title or a letter of allotment from the council indicating that the land will not be sold prior to consulting NACHU. This is retained by NACHU until the loan is repaid. In the event of chronic default NACHU sells the property to settle the debt.

finances and credit, the monitoring of loans, sustaining savings and develops leadership skills. Cooperatives are trained in technical matters such as accessing and developing land, alternative building technologies and materials, building and infrastructure maintenance, and the housing development process. Members are also sensitised to the HIV/AIDS pandemic.

NACHU also does **advocacy and lobbying** on a range of policy issues to create a more enabling environment for cooperative housing and lobbies to access resources and land for its members.

## Location of support and personnel

NACHU has one office located in Nairobi and does not operate any field or satellite offices. The organisation has fifteen staff organised into three departments, the Community Training Mobilisation and Microfinance department, the Projects department and the Finance department.

The Community Training Mobilisation and Microfinance department comprises five staff (a training officer and microfinance officers). They support the establishment of new cooperatives, disseminate information to members, conduct needs assessments, support the groups with savings and credit management, assist groups to review new loan applications and conduct training and capacity building with cooperatives on:

- NACHU's products and loan terms;
- governance of the cooperative;
- the responsibilities of cooperative members;
- group dynamics;
- the steps in the housing development process;
- savings and credit management.

NACHU's Projects department (also known as the Technical department) comprises an architect and a quantity surveyor. They coordinate the provision of technical services through a variety of efforts, including:

- providing various professional services (architectural, planning, surveying, engineering etc.) – either in-house or by outsourcing and supervising professionals;
- assessing whether the land is suitable for housing and conducting feasibility studies and preparing project proposals and development proposals;
- carrying out training on house construction;
- assisting groups to use NACHU's standardised house plans and costs;
- obtaining title deeds or letters of allotment, council approval for plans
- lobbying and negotiating with the authorities on design and construction matters;
- working with individual members on the design details and level of upgrading or improvements they desire;
- assisting groups to assess the technical aspects of new loan requests; and
- advising on the nature, quantity, quality and cost of materials needed and the overall cost of construction.

NACHU has no dedicated loan officers; staff in the Community Training Mobilisation and Microfinance department conduct training and capacity building activities and also perform conventional loan officer functions. The financial manager assists them to compensate for this shortage in human resources which NACHU recently identified the need to address.

## Support to individuals or groups

The cooperative model takes advantage of the African tradition of group savings; groups save together and are actively involved in loan appraisals, credit granting and risk management. Cooperative members determine who they would like to join as a group for the purposes of saving regularly and guaranteeing each others' loans. NACHU's housing support products and services are provided to groups and individuals depending on the nature of the support.

## Accessibility of skills

Artisans with the technical skills for building are readily available enabling people with finance to build independently and incrementally with relative ease. With Kenya's strong financial sector, microfinance skills are also readily available in the market place and apart from producing accounting graduates, tertiary institutions also offer post-graduate programmes in microfinance.<sup>15</sup> These skills can therefore easily be sourced by NACHU.

In contrast, built environment professionals such as engineers, land surveyors, planners or property valuers are scarce. Accessing these skills is costly and it is hard for NACHU to offer competitive salaries to appropriately skilled and experienced professionals.

## Pricing of housing support products and services

### Costs

New financial systems were recently introduced to track cost centres but at the time of documenting the case study NACHU was unable to provide historical (or estimate future) costs of its housing support services and products. It can be noted that education and seminars alone cost KES 7.5m (USD 100,000) for the financial year ended 2008.

### Projections for growth

NACHU's savings have grown rapidly and its loan portfolio has also grown. Despite this the expansion of NACHU's loan book has been constrained by its limited human resources and capital. More technical and microfinance staff members are needed as well as more wholesale finance. NACHU is refining a strategic plan which addresses scaling up and includes a capitalization strategy. It also established new partnerships to help expand its capital base.

### Pricing and cost recovery

The fee for housing support services and products is included as part of the once-off application fee structured into the loan at 2.5% on the principle loan value amortised for the loan period. The fee is not cost related but has ostensibly been determined by the affordability levels of the members. It is set by the board which comprises representatives of member cooperative societies. The 'borrowers' thus themselves set fees and interest rates. This practice undermined the growth and sustainability of NACHU's housing microfinance programme.

NACHU estimates that only about 20% of the actual cost related to provision of housing support products and services are being recovered. All cooperative members receive training and capacity building but only a percentage of these access loans which is when NACHU charges a fee for these services.

Some clients do cover the full cost of housing support, for example in discreet projects implemented for those with moderate incomes in larger cooperative societies. Technical

services have also been provided to clients who do not access any NACHU loans but who require technical support; in these instances NACHU has recovered costs.

Housing support products and services are mainly financed by donor funds and NACHU is exploring the possibility of doing real estate developments to generate revenue to cross-finance the provision of housing support. They have already provided professional services to medical doctors in three projects and are embarking on a fourth project.

NACHU's new strategic plan incorporates the development of a market related financing model in which management will monitor the market and the actual costs of provision of housing support and will advise the Board on appropriate fees and interest rates.

### Client willingness to pay and affordability

Members consider the service valuable and are willing to pay for it. They realise that they are unlikely to obtain assistance of a similar quality more cheaply. Despite this the very low level of affordability of most members makes the services non-essential if payment is required.

NACHU anticipates that increasing the fee will make the products less affordable for many of its members. While they expect new members to readily accept the loan terms they consider that existing members may not do so quite as easily and it will be necessary to educate them about how the cost is determined and why it increased.

## Overall assessment

### Successful aspects of the approach

NACHU's training, advice and guidance combined with the disbursement approach of 50% upfront and 50% after an assessment of progress successfully addresses loan diversion. Client integration and brand loyalty has been achieved by complementing the provision of finance with the provision of housing support services and products. NACHU uses the cooperative model for organising and elements of the savings and credit cooperatives and the microfinance model for financing incremental housing. These models are proven to work well in building social and financial capital amongst low-income earners.

### Main benefits of the approach mentioned by NACHU and its clients<sup>16</sup>

Many members improve their houses by adding rooms or building freestanding rooms which are rented out to generate income. They report that the skills and understanding acquired through NACHU's training and capacity building has indirectly **improved their tenant management ability**.

Members mention that by providing both finance and support, NACHU ensures that their quality of life improves as they have **gained secure tenure**, access to clean water, healthier living conditions, improved neighbourhoods, some have improved shelter and others gained new sources of income by renting rooms. They credit NACHU with these achievements as they observe that others who access loans elsewhere without advice and skills development squander their money and struggle to achieve their goals.

Members particularly appreciate that NACHU facilitates networking amongst the cooperatives enabling them to share experiences, **learn from each other** and as a result make better financial, technical and governance choices.

NACHU believes that the advice and training they provide **limits exploitation by service providers and suppliers**. Members say they are able to confidently supervise their contractors, with a greater degree of independence. Some members, also credit NACHU's housing support services and products for improved relationships with the municipal physical planners who inspect the construction works and who expect building standards to be met.

The cooperative lending model used by NACHU requires that cooperative societies guarantee their members loans. Inherent in this is both risk and responsibility on all participating individuals. Members say that NACHU's training helps them to fully appreciate their roles and responsibilities and to **successfully manage their cooperatives and fulfil their obligations**.

The approach **reduces the risk of loan diversion** and helps assure that the money borrowed is sufficient to achieve the members' goals and is used for its intended purpose. Members can occupy or develop their homes resulting in increased client satisfaction and steady loan repayments consequently improving the overall loan book performance. NACHU also believes that their integrated approach fosters brand loyalty.

## Challenges and barriers to expanding operations

### *Sustainability*

NACHU identifies the sustainability of its services as its main challenge. The organisation recognises a number of variables that affect their **sustainability**, most notably the low interest rate, the pricing of housing support products and services and access to wholesale finance.

NACHU's interest rate and the fee for housing support products and services has not been cost related but based on the affordability levels of the members. This practice created dependency on donations and threatened the sustainability of the housing microfinance programme placing the fund in jeopardy. Recognising this, the November 2009 annual general meeting increased the interest rates and gave the Board flexibility to set future rates and fees based on a more viable business model.

Furthermore, the overall cost of the organisation's housing support products and services has not been quantified and is thus not understood or evaluated for cost-effectiveness. The real cost of the housing support products and services will be the sum of NACHU's labour costs plus the costs of any contracted external service providers plus the costs of any direct expenses (such as petrol, printing costs, registration fees, materials for advocacy, training or supervising, office overheads, etc.). These expenses should be managed to reduce unnecessary expenditure and to provide a high value for money service. Moreover, to help achieve sustainability the costs should be passed on to the client or financed from a reliable revenue stream.

### *Resources*

NACHU has **limited human resources**, especially in its two-man Projects department. Despite this it offers a comprehensive support service to a growing membership and is thus unable to provide the desirable level of quality assurance to its members. Capacity is needed to effectively supervise and manage the professionals contracted by NACHU to assist clients.



Without this, **quality standards** cannot be guaranteed and some problems are already evident. Clients may be reluctant to increase fees or to continue paying for services. The organisation could benefit from more human resources and stronger partnerships with universities, and other local and international development agencies. Alternatively, it should review its support services offering to clients to create a better fit with its human resource capacity.

Expanding access to housing support products and services is closely related to growth of the housing loan portfolio. NACHU's loan portfolio growth has however been constrained by a **shortage of wholesale funds**. NACHU uses its own funds, provided by donors over many years to finance its portfolio but more is required given the growing number of eligible members. Sourcing capital has been difficult due to NACHU's financial and operational weaknesses.

Operating funds are also required and NACHU recognises the need to **reduce dependence on donors**. It is exploring the feasibility of cross-subsidising the housing support services costs with income earned in its real estate developments. Furthermore, NACHU has the potential to standardise its housing support products and services and to sell this at a profit to people or organisations that are not cooperative society members.

#### *Institutional form*

NACHU uses **the cooperative institutional form** and members, through their representation in the governance structure determine the cooperative rules and bylaws. Inherent in this is a dichotomous dilemma of balancing the institution's need for sustainability with the members' need for affordable services.

#### *Internal systems*

NACHU is working hard to improve the **overall financial performance** of the loan book and of the institution. For example, improved financial management systems have been put in place to improve loan tracking and reduce defaults, interest rates are being revised upwards and fees are also being adjusted.

NACHU requires stronger **systems to manage the performance work of its panel of consultants** so that quality standards can be guaranteed and problems can be quickly identified and addressed.

NACHU considers the **lack of housing microfinance benchmarks** as a significant barrier as the organisation is experimental in its goal setting and is burdened with the task of educating its key stakeholders and potential financiers in order to secure or maintain their buy-in. While housing microfinance is a relatively new sector, the benchmarks used by microfinance institutions can be adapted for use in a housing microfinance operation. Rigorous internal monitoring and evaluation will facilitate organisational learning and the development of customised benchmarks. In the longer-term, this along with closer networking and collaboration with other providers of housing microfinance can facilitate the development and definition of appropriate standards for housing microfinance.

While members consider the NACHU support services as beneficial, their overall **low affordability level** forces them to make tough choices regarding how they spend their money. Even if housing support products and services were properly priced NACHU faces the challenge of convincing clients to pay more for this service. Skilled and semi-skilled construction workers are easily found in the target communities and members do not readily

see the necessity to pay NACHU for the provision of these services and consider the expense as an indulgence.

#### *External context*

NACHU operates within a difficult **policy environment** where obsolete planning regulations are still in existence and enforced and where local authorities have a poor understanding of how best to support incremental housing development. In response, NACHU actively lobbies and advocates for legislative changes and to educate local level officials and politicians.

#### **Key lessons arising and potential for replication**

*Several aspects of the model in this case study are suitable for replication. They should however, always be appropriately customised and adapted for different organisations and contexts.*

NACHU is a one-stop shelter improvement agency for its members. This is a costly undertaking which has not been properly priced by the organisation. As a result it has contributed to **weak overall financial performance** which has alienated potential commercial financiers and possibly also some social actors. It can also benefit from better supervision and oversight of its wide range of support services to address **weaknesses in building quality**. NACHU should review its support services offering to clients to **create a better fit with the organisation's capacity**.

An important lesson from this case study is that housing microfinance cannot be provided on a charitable basis in an environment where massive and growing demand for housing exists. Operations need to **achieve sustainability** and to run along commercial principles to respond to growing demand. NACHU's new customer-driven products respond to members' needs and improve sustainability. The organisation is restructuring its operations including clarifying the roles of NACHU and of cooperative members, and identifying and addressing human resource gaps. NACHU has also entered into relationships with new development partners.

NACHU's shift toward sustainability is gradual and a lesson emerges regarding product pricing. NACHU's experience shows the difficulty of increasing product prices after existing clients are familiar with products and costs. It is thus necessary to **get both the product offering and pricing right** at the outset. Market research beyond the needs and affordability levels of target clients is required when packaging new loan products so that realistic fees and rates can be set.

Where other lenders plan to rely on **external role-players**, such as NACHU's panel of consultants for the delivery of support services, they must ensure that they put in place strong systems to manage performance and ensure quality control.

Some NACHU loans achieve **dual impact by providing improved housing and generating income** for the member. Some members who have benefited from NACHU's services have built additional rooms and rented these out to generate income. These loans serve a dual purpose of providing improved housing for one (or more households) while also generating income for the member household. Such loans make NACHU an intermediary in the housing delivery process where the cooperative member is the provider of shelter to the end-user (the tenant). In these instances the housing microfinance is used to provide physical space which is rented to generate income and thus could be construed as a micro-enterprise loan. This is an important outcome to track as one activity achieves dual impact and if this can be quantified and occurs on a significant scale it may unlock access to new sources of capital.

NACHU offers important lessons for other housing cooperatives about the challenges faced by housing cooperatives and the **benefits of providing support services and products**. Providing the services has enabled NACHU to retain and attract more members. Their training activities mobilised significant savings. Its exchange programmes increased confidence of member cooperatives and motivated them to access loans and implement similar initiatives in their own areas while also educating them about the pitfalls of settlement upgrading and housing development.

NACHU has innovatively implemented real estate developments to generate revenue and cover some of its operating costs. They have also generated income by providing housing support products and services to clients (outside of its primary target group) at profitable rates. By scaling up these revenue streams NACHU may develop **a sustainable cross-subsidisation business model**. Once these services are correctly priced the organisation may be able to generate sufficient revenue to finance its operational expenses as the institution strives to reach sustainability.

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## List of acronyms and abbreviations

Etc.	Etcetera
HDI	Human Development Index
HIV/AIDS	Human Immuno-Deficiency Virus / Acquired Immune Deficiency Syndrome
GDP	Gross domestic product
ITDG	Intermediate Technology Development Group
KENSUP	Kenya Slum Upgrading Programme
KES	Kenyan Shilling
m	Million
NACHU	National Cooperative Housing Union
NGO	Non-government organisation
pa	Per annum
PAR	Portfolio at risk
PPP	purchasing power parity
UN-HABITAT	United Nations Human Settlements Programme
USD	United States Dollar

## Endnotes

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<sup>i</sup> United Nations Development Programme, *Human Development Report 2009*, 2009

<sup>ii</sup> United Nations Population Fund, *The State of World Population*, 2009

<sup>iii</sup> United Nations Children's Fund / World Health Organisation, *Progress on Drinking Water and Sanitation: Special Focus on Sanitation*, 2008

<sup>1</sup> An exchange rate of 75 has been used throughout the report based on the average United States Dollar / Kenyan Shilling exchange rate between June and December 2009.

<sup>2</sup> All NACHU clients are also members of the union.

<sup>3</sup> Harvard Joint Centre for Housing Studies, *More Than Shelter*, 2005

<sup>4</sup> *Ibid*

<sup>5</sup> The Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, access to knowledge and a decent standard of living. Countries are classified into four categories of achievement in human development: Very high human development (countries with a HDI of 0.900 or more), High human development (countries with a HDI of 0.800–0.899), Medium human development (countries with a HDI of 0.500–0.799) and Low human development (countries with a HDI of less than 0.500).

<sup>6</sup> Gross domestic product (GDP) is a measure of the economic activity in a country and is calculated, using one of three formulas, to find the total value of a country's annual output of goods and services.

<sup>7</sup> GDP has been converted into purchasing power parity (PPP) terms thus enabling comparisons of living standards across countries.

<sup>8</sup> The Gini index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. The index lies between 0 and 100: a value of 0 represents absolute equality and 100 absolute inequality.

<sup>9</sup> Republic of Kenya, Ministry of Housing, *Strategic Plan, 2006-2011*, Revised 2007

<sup>10</sup> <http://www.unhabitat.org/content.asp?cid=7012&catid=303&typeid=6&subMenuId=0#>

<sup>11</sup> Interview with Eric Makokha of Shelter Forum, 7 October 2009

<sup>12</sup> Republic of Kenya, Ministry of Housing, *Strategic Plan 2006-2011*, Revised 2007

<sup>13</sup> Portfolio at risk (PAR) is a measure of loan portfolio quality. PAR is the outstanding principle amount of all loans that have one or more instalments past due by a specified number of days. Microfinance organisations normally use 30 days, PAR 30.

<sup>14</sup> At the same time, PAR over 120 days was 9% (a figure which has gradually been declining) due to the impact of election violence on a substantial number of cooperative members with active loans who continue to struggle to recover from the impact of the violence on their daily lives and livelihoods.

<sup>15</sup> Interview with Andrew Mnjama of Swiss contact, 6 October 2009

<sup>16</sup> NACHU clients cited these benefits in a focus group which was conducted with them to inform the study.