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HOUSING FOR THE POOR IN KENYA: NACHU'S COOPERATIVE APPROACH

This case study is a part of a series of microNOTES addressing current issues in housing microfinance. The experience of the National Cooperative Housing Union in Kenya demonstrates the importance of advocacy and technical services in that market. NACHU also provides lessons learned in balancing the importance of low interest rates for clients, and the ability to access commercial capital in order to reach a scale commensurate with the immense scope of the low income housing problem.

The National Cooperative Housing Union, NACHU, is a not-for-profit housing microfinance and technical services organization supporting housing cooperatives throughout Kenya. NACHU's mission is to contribute to improved shelter and quality of life for low-income communities through the provision of advocacy, technical, and financial services.

NACHU's strength is its holistic approach to shelter development: housing microfinance combined with advocacy and technical services that allow cooperatives to gain access to land and infrastructure, and ensure quality construction. NACHU also supports member cooperatives with training in financial management, governance, and other important topics including HIV/AIDS prevention.

NACHU's key challenges are its small size and heavy reliance on donor funds. NACHU currently has only 300 loans totaling \$690,000, and total accumulated savings are just \$379,000 from 2,300 members. The loan portfolio is financed by donations and low cost loans from donors and foundations, while savings are only used as collateral. Since 2004, NACHU has implemented an aggressive strategic plan to increase member savings and tap commercial funding. However, these efforts are dwarfed by the immense need for low income housing. NACHU's supply of funds falls far short of existing unmet demand from current members, which is estimated at over \$450,000.

HOUSING AND HOUSING FINANCE IN KENYA

Like many other emerging markets, Kenya has struggled to provide basic housing for poor and modest income households. Estimated housing demand for urban areas is 150,000 units a year, but formal production of housing by both the public and private sectors is

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currently only 20,000–30,000 units.

Government-supported housing has tended to benefit the middle class and civil servants, and in any event, is no longer being produced in any quantity. Central and local governments unsuccessfully struggle to provide land, infrastructure, and transport to serve increasing demand for shelter in urban areas, and slums fill the housing deficit for the poor.

An estimated 5.4 million Kenyans live in slums and informal settlements in Kenya, which are characterized by severe poverty, overcrowding, insecurity, high unemployment, poor sanitation, and environmental degradation.¹ Nairobi has the largest slum in Africa—Kibera—with over 800,000 residents, and there are 200 other slum areas in and around the city. Previous governments had made almost no effort to bring sanitation and improved shelter to the slums, and corruption and land grabbing by the political elite exacerbated ineffective land policies.

Optimism has increased with the advent in 2004 of the new National Housing Policy and KENSUP -the Kenya Slum Upgrading Program—which reflect a strong commitment to improve living conditions.

Kenya's formal housing market is now providing upper income

shelter at a rapid rate. Benefiting from improved macro-economic fundamentals and a reinvigorated banking and mortgage finance sector, international banks such as Barclay's and Standard Charter have entered the mortgage market, providing vigorous competition for Kenya's restructured housing lenders such as HFCK and Savings and Loan.

Kenya also has a well developed microfinance sector, including four large microfinance banks (Equity Bank, K-Rep Bank, Family Bank and Cooperative Bank) which serve the upper end of the microfinance market, and about 50 microfinance organizations, a number of which are quite large. The microfinance banks and MFIs had \$225 million in outstanding loans, 3 million savers, and 500,000 borrowers at the beginning of 2006. As one example, the Kenya Women's Financial Trust, the largest MFI in Kenya, has a loan portfolio of over \$32 million. Kenya's SACCO movement, with 3000 active societies, is the largest in Africa, with outstanding loans of \$1.15 billion.

With a few exceptions, however, the microfinance sector has not addressed the gap in financing low income shelter. Housing lending has not gone very far downmarket, and the majority of Kenyans, especially the very poor, still lack access to formal financial services. The MFIs are primarily engaged in small enterprise lending while the SACCOs focus

on consumer lending. Although some of these loans are no doubt used for housing purposes, housing finance has not been a focus for most of the microfinance industry.

In this context, NACHU has been a pioneer in providing microfinance for housing (MFH) for poor and very poor clients. Only a few other groups offer products for low income housing. Jamii Bora, a rapidly growing NGO soon to be registered as an MFI, provides a wide range of services to the very poor, and is now engaged in a low cost housing development project for its members, providing housing microfinance loans to the families involved. Habitat for Humanity and K-Rep Development Agency, both NGOs, have provided limited project-based housing assistance. KUSCCO, the national union of urban SACCOs, offers housing loans to its members. Finally, Family Bank offers construction loans to its clients, if secured against other developed land. With the exception of Jamii Bora, however, these groups target higher income clients than NACHU.

NACHU AND THE COOPERATIVE MOVEMENT

The cooperative movement is historically significant in Kenya, and includes the savings and credit cooperatives (SACCOs), agricultural cooperatives, and a large number of housing

¹ Source: Kenya Slum Upgrading Program, Ministry of Housing, Kenya

cooperatives. Housing cooperatives are community based organizations that facilitate shelter development for members, through lobbying on behalf of the group to acquire land and infrastructure for housing, increasing access to finance, and providing or engaging technical services for construction.

NACHU was registered in 1979 under the Cooperative Society Act as an umbrella organization serving the needs of its member housing cooperatives. NACHU's mandate was to improve housing conditions for the poor through lobbying and advocacy, technical services, and financial services. For many years NACHU focused primarily on the first two activities. In lobbying and advocacy, NACHU assists self-organized cooperatives to work with municipal and national governments to gain title to serviceable land. NACHU's technical services include assistance in identifying and purchasing suitable land, quantity surveying and subdivision, development of affordable designs and materials, identifying and engaging building contractors, facilitating purchase of low cost building materials, and supervising construction. NACHU also conducts real estate transactions, buying, selling and leasing property, to generate revenue for its operations.

NACHU'S holistic view of the shelter process and its technical and advocacy services are its comparative advantage in

improving access to housing for the poor, relative to the microfinance industry and the SACCOS. Indeed, land and security of tenure are often the key constraints to shelter for the poor.

NACHU's cooperative members are genuinely appreciative of the changes that NACHU has brought not only to their improved shelter but to their lives as community leaders and more productive members of society. The latter is due in large part to the income generation activities often associated with members' improved shelter, such as adding rooms for rent or for informal business activities. Indeed, this has become a hallmark of NACHU's approach.

Most recently, training in issues surrounding HIV/AIDS has been added to the services, rounding out NACHU's community-based and holistic approach.

NEW EMPHASIS ON HOUSING FINANCE

For twenty years housing finance was not developed as a sustainable line of business for NACHU. Housing loans were limited to specific projects financed by donor or foundation funding. Early funding for NACHU came from USAID through an \$18 million loan from the Housing Guarantee Fund, and from the Ford Foundation. More recently, funds have been sourced from Roof Tops Canada, NORAD (Norway's aid group), NBBL (a Norwegian foundation), the

Swedish Cooperative Center, and SACOMA, a UK foundation. These funds, together with interest income, are held in a revolving fund which was Ksh. 47.8 million as of June 2007. This loan fund has been financed 80 percent by donations and 20 percent from low cost loans.

Historically, NACHU's member cooperatives were aware that loan capital was provided by donors, and deposited savings with NACHU only as required to leverage their housing borrowing, usually a 1 to 5 ratio. Additional savings were likely to be placed in banks or SACCOs, and NACHU did not promote itself as a deposit taking institution.

NACHU did not pursue borrowing at commercial rates, preferring to rely on low cost funds in order to keep its own lending rates low. Requests to banks for loans at favored rates were rejected, as banks considered NACHU's low income clientele too risky for preferred treatment. NACHU has relied solely on donors and foundations to provide "affordable" below market rate money.

NACHU became a "victim of its own success" as demand for housing finance from NACHU members increased. Members whose original housing was developed through donor funding continued to have needs for housing improvement financing. These members also spread the word to other communities, who organized to become members of NACHU

Table 1: NACHU's Housing Cooperative Members				
NACHU's Cooperative Members	2004	2005	2006	2007
Total No. of Housing Co-operatives	-	220	236	248
Total No. of Active Housing Co-operatives	-	130	152	180
No. of Active Savers (individuals)	-	1,108	1,243	2,296
No. of Active Savers—Housing Only (individuals)	-	1,096	1,218	2,155
Total Savings Portfolio	4,875,923	13,222,567	18,710,999	25,467,550
Total Savings Portfolio—Housing Only	4,698,323	12,894,387	18,080,389	24,959,293
No. of Active Borrowers (20%-25% groups, 75%-80% individuals)	47	82	150	330
No. of Active Borrowers—Housing Only (20%-25% groups, remainder individuals)	41	69	130	304

but who did not have a pool of donor capital for financing. NACHU did not have sufficient loan funds to meet member demand, and membership dropped.

Response to Increased Demand

NACHU's response to member demand for housing microfinance has required changes to both its product offerings and its funding strategy. In order to expand and refine its housing loan products, NACHU engaged in a market research and product development process, recruited experienced microfinance loan officers from two leading microfinance institutions, installed a new loan tracking system, and revised its accounting system to separate lending from technical and other support activities.

In order to increase its available loan capital, NACHU initiated an aggressive savings promotion campaign. As part of this campaign, NACHU has strengthened its relationships with individual and cooperative

members through capacity building on leadership and governance, credit management and financial management.

NACHU is also pursuing commercial funds at market rates and donor guarantees for commercial borrowing, while continuing to seek below market funds from donors, foundations and social investors.

NACHU's activities in both savings and lending have taken a quantum leap since 2004. As shown in Table 1, total savings rose from Ksh. 4.9 million to 25.5 million by June 2007.²

There are many more savers than borrowers at any one time, since it takes most members a long time to accumulate the savings required for a loan of the desired size. There are also many more members than savers at any time, since only a portion of members will be

² The table distinguishes "housing only" savers and borrowers from the totals — the others are members who have taken out business or education loans.

saving to leverage loans for buying or improving their housing. The coops have nearly 50,000 members, and only about 2,300 are active savers. NACHU hopes that its savings promotion campaign will continue to increase the number of savers, particularly those not planning to borrow for housing.

Lending activity since 2004 also jumped, from Ksh. 5.5 million to the current portfolio of Ksh. 45.6 million. NACHU's net income has grown, reaching a return on equity of 2 percent in 2007. Despite this growth, NACHU faces a chronic shortage of funds relative to the estimated demand just from its current members. The shortfall is estimated to be at least Ksh 30 million (about \$450,000), representing a need to increase the outstanding portfolio by 65 percent.

NACHU's Housing Finance Clients

NACHU has 248 coop members, ranging in size from 10, the legal minimum, to one with 9200 members. NACHU prefers to limit the size of housing co-operatives to 15 to 35 members for ease of management and monitoring; the very large housing co-operatives were formed from previously existing groups such as a coffee coop and a teachers' SACCO, which then registered as housing coops to benefit from NACHU's technical services.

Low income and very low income households form the

bulk of NACHU's clients, although there are also a few cooperatives whose members have modest income (such as a doctor's cooperative). Typical income is Ksh. 3000 per month (about \$45) although the better off clientele have an average income of Ksh. 20,000 (\$300). This compares with target incomes of Ksh. 100,000 to 400,000 for the commercial banks. NACHU's savers and borrowers include both men and women, although women have contributed over 60 percent of the savings.

NACHU's Housing Loan Products

NACHU engaged in a market research and product development process to define a set of housing loan products that met the needs of its members. NACHU carried out a survey to establish target income levels and better understand members' housing finance needs. A second survey of existing products on the market revealed that neither banks nor MFIs were offering appropriate products for housing for the poor. Thus, NACHU opted to develop the in-house capacity to provide medium-term housing loans suitable to its target market.

The unique characteristics of NACHU's housing loan products include a longer loan term, lower interest rate, and increased leverage of saving. Seventy-four percent of NACHU's housing portfolio has terms of 48 to 72 months, considerably longer than most

MFI loans. NACHU's 15 percent interest rate is also lower than the MFI market rate of 20–24 percent. In addition, NACHU's borrowers can attain better leverage from their savings, generally 5 to 1 as compared with 2 or 3 to 1 for the SACCOS.

NACHU has expanded its loan products to include business and education loans, but housing loans account for 98 percent of the outstanding portfolio.

The housing loans include:

- **The Cooperative New Housing Loan**—Individual loan for the construction of new and decent shelter with emphasis on affordability.
- **The House Rehabilitation Loan**—Individual loan for improvement of existing semi-permanent structures built on land owned by the co-operatives or their members.
- **The Resettlement Loan**—Group loan that assists members displaced by internal conflict to buy land and build basic structures; they can later borrow as individuals to construct permanent houses.
- **Infrastructure Loan**—Individual loan for installation of electricity, water and sanitation facilities.
- **Income generating project loans**—Group loan for the housing cooperative to develop houses or

buildings specifically for income generating purposes. Title is held by the cooperative.

Table 2 provides an overview of NACHU's portfolio.

Loan size is based on the amount of the client's savings and the size of the proposed project. All the housing loans are granted at up to 5 times savings, with various maximums. Housing loan terms vary from 24 to 72 months. The interest rate for all loans is 15 percent fixed on declining balance, repayable monthly. Loan application fees are 1 percent of amount borrowed with a minimum of Ksh. 100 and a maximum of Ksh. 1,000. NACHU also charges a fee for technical services, described below. All loans are insured at a cost of 1.06 percent, payable upfront to the insurer.

NACHU's Lending Procedures

Eligibility for NACHU loans.

NACHU conducts a credit appraisal once a cooperative or an individual applies for a loan, and educates the cooperative members about loan terms and conditions, including recovery procedures. Individual borrowers must provide either land title or a letter of allotment issued by the municipal council (with a letter from the council indicating they will not sell the land before consulting NACHU.) For group loans, members must submit minutes of the coop meeting where the

Table 2: Loans Outstanding by Type of Loan*						
Type of Loan	Total Outstanding Loans (Ksh.)	Percent of Total Portfolio	# of Coop Loans**	Average Loan Size	Maximum Loan Size	Maximum Term
Individual New Housing Loans	17,360,825	38.03%	47	280,000	Ksh. 500,000	72 months
Group Rental Income Generating Loans	10,538,456	23.08	9	1,855,600	Ksh. 10,000,000	48
Group Resettlement Loans	10,229,160	22.41	11	32,115	Ksh. 60,000	24
Individual Rehabilitation Loans	5,946,519	13.03	23	117,000	Ksh. 200,000	48
Individual Infrastructure Loans	752,804	1.65	4	157,500	Ksh. 60,000	24
Total Housing Loans	44,827,764	98.2	94	(n.a.)	(n.a.)	(n.a.)
Business Loans	666,659	1.46	10	104,200	Ksh. 500,000	24
Children's Education Loans	157,569	0.35	23	24,600	Ksh. 50,000	12
Total Loans Outstanding	45,651,992 (\$690,000)	100.00%	127	(n.a.)	(n.a.)	(n.a.)

* Outstanding loans at the end of FY 2007 (June 30, 2007). For individual loan types, the number of loans and average size are calculated for disbursements from June 2003 through June 2007. The exchange rate is Ksh. 66 = \$1.

** All loans are recorded as loans to the member cooperative. Therefore, "group" or "individual" loans are both recorded as loans to the cooperative, but group loans are made to the cooperative as a whole, while individual loans are made to individual cooperative members.

resolution was passed to take a group loan.

A standard template is used to obtain information on income levels and expenditures of individual members. Additional underwriting criteria relate to coop membership and savings requirements. An individual borrower must be an active member of the housing cooperative, must attend monthly meetings, and must save for at least 6 months. The loan application letter is prepared by both the individual borrower and the group, with individual loans disbursed to the group on behalf of the borrower.

Loan Disbursement and Monitoring.

The housing loans are disbursed in two stages. Fifty percent is disbursed on loan approval, and the rest upon satisfactory utilization of the first disbursement. NACHU maintains close supervision of its projects, and the loan officers make quarterly visits. Cooperatives with group loans are required to meet monthly, collect the repayments from members, deposit them into NACHU's account and file monthly reports on the project implementation. Through training, NACHU has sought to ensure that society members are accountable to each other for their actions. In fact, there

have been several cases in which members have discovered that a borrower has diverted funds and have written to NACHU asking to withhold further disbursements.

Loan Recovery Procedures:

If a title is involved, NACHU holds it until the loan is repaid. In all cases, risk management relies heavily on group pressure. For individual borrowers, there is a "double guarantee" structure: an individual borrower is guaranteed (1) by five members, and (2) by the whole cooperative. For group loans, the entire group is liable for repayment and must be self-managing in terms of enforcing payment from each individual member towards the group loan. In the event of default on an individual loan, the guarantors exert pressure on the borrower, but repayment by the guarantors is not mandatory. For both individual and group loans, if repayment is not made, the case is turned over to a debt collector. The final action would be sale of the property, with NACHU recovering the outstanding balance. The cooperative is given the first opportunity to purchase an individual's property. NACHU reports that none of the group loans have been foreclosed in this manner. NACHU's portfolio at risk (over 120 days) for the housing microfinance portfolio over the past three years averaged 4.8 percent. This is higher than Kenya's MFI average but considerably lower than several of the microbanks.

MORE THAN FINANCE: NACHU'S TECHNICAL SERVICES

NACHU members pay for technical services for most loans except infrastructure loans. Infrastructure (utilities) are installed directly by the provider and rarely require any technical services for the individual borrower. Rehabilitation, resettlement and new housing loans include a technical service fee of 2.5 percent of the loan value, which is a subsidized charge. Technical services for group income generating loans are at market rates, ranging between 6 and 8 percent.

One of NACHU's key technical services is facilitating land acquisition and development, including processing titles, and providing building plans and technical advice for purchasing contractor services and building materials. NACHU generally does not buy land except in the case of resettlement loans, where in some instances NACHU has bought the land on behalf of the co-operatives in order to leverage its ability to lobby with the local authorities for infrastructure and to assist in land titling. This land is then subdivided into plots for the members and NACHU assists in acquiring title for each member. The total costs incurred are apportioned to the individual members; a member is required to pay his portion before receiving title, which is held by NACHU.

NACHU also produces a newsletter featuring coop case studies and technical information. The December 2006 edition, for example, featured housing designs and an examination of the issues surrounding Kenya's mandatory environmental assessments. In addition, NACHU has partnered with Practical Action, a global environmental NGO, focusing on low cost building materials, infrastructure and slum sanitation.

Coop Member

Testimonials. Visits to housing cooperatives in the cities of Mavoko, now becoming a "suburb" of Nairobi, and Nakuru, in the Rift Valley, provided ample testimony to the benefits provided by NACHU. While the housing microfinance loans were of key importance, nearly all the coop members spoke of the benefits of NACHU's other activities: help in obtaining land, technical services, and training. They were also aware of the funding constraints currently challenging NACHU. The coop members' statements stressed several themes:

- Lack of funds for additional loans and/or larger loans was clearly the most urgent need. Coop members cited the problem of delays for housing improvements or incremental construction because funds were not available from NACHU. Many had sought bank loans and were turned down.

- Assistance with obtaining land is of key importance. While some coop members had received a plot from a municipality, most had not. NACHU assists with lobbying to obtain land, providing loans for purchase, and providing legal assistance in titling.
- Income-generating properties, especially rooms for rent and shop areas for informal businesses, are very important for improving overall quality of life. Often, in a progressive building process, the rental rooms are completed first, providing the member with income to complete the personal residence portion of the dwelling.

NACHU's holistic philosophy and breadth of services are greatly appreciated. Cooperative and community building, housing technical services, and most recently HIV/AIDS, training were cited as very important. Members are extremely proud to be members of coops belonging to NACHU. The sense of identity and purpose that they feel in the cooperatives is unmistakable. In sum, three themes summarize NACHU's holistic approach: "the house that grows" (stressing incremental building and the addition of rental rooms and shops), "NACHU as one-stop shop" (assistance with community organizing, land, and low cost building technologies), and "live to build" (the HIV/AIDS prevention and care theme).

THE NEW STRATEGIC PLAN

NACHU's planned activities for 2007–2009 are summarized in Table 3: housing microfinance, training and mobilization, technical services, and lobby and advocacy initiatives.

To fund these activities, NACHU will receive donations and low cost loans from donors and foundations, member savings, and income from buying and selling of land, property management and technical services.

Donor funds are used to finance lending, community mobilization, lobbying, advocacy and community training activities. Income from buying and selling land, property management and technical services is used to finance the general administrative costs of the institution.

New Sources of Funds

These non-commercial sources of funds, however, are no longer sufficient to meet NACHU's expectations for growth. Although NACHU would like to

keep its interest rates as low as possible, the organization and at least some of its members realize that there is a beneficial compromise between affordability and reaching a scale more commensurate with member demand. Thus, NACHU has just put in place a major new strategy in hopes of taking another leap in funding and attaining greater self-sufficiency. The strategy includes the following:

- Borrowing from commercial banks and wholesale lending institutions. NACHU is currently in discussion with two banks and two wholesale lending institutions, which are offering competitive market rate loans.
- Seeking loan guarantees from donors and foundations to facilitate borrowing from the banks.
- Borrowing from foundations at discounted rates. NACHU has negotiated for funds from Fechim in Canada at 5 percent and Zero-Kap in Netherlands at

Case 1: The Naivasha Traders Coop, with 832 members and 648 plots, borrowed \$6600 for a water project; 62 plots now have housing, some for rental income, but the residents are finding it challenging to build new units.

Case 2: Janet used to live in a small one roomed house made of carton, nylon and mud together with her husband and three children. After getting a loan from NACHU, she built three rooms made of brick, two of which she rents out and earns income from and one in which she has put up a shop. She also upgraded her house and now has three rooms made of iron sheets. She intends to extend the building upwards to provide family quarters.

Case 3: The Uyumulivu Coop, having letters of allotment from the Government, borrowed \$77,000 to develop housing. The housing quality is good and many rooms are rented, but arrears were nevertheless at 20 percent.

Case 4: The Bellevue Housing Coop, located in Mlolongo, an informal settlement near Nairobi, bought land with a loan from NACHU and were helped by to subdivide. Of 139 plots, two-thirds have been developed and 30 sold to outsiders. Repayment has taken a long time, however, and the default rate was 10 percent.

Case 5: A Rift Valley coop learned about NACHU from a neighboring coop, and has been helped by NACHU to save, borrow, and build. The group has now transformed 12 houses from mud bricks to stone, with NACHU's technical help.

0 percent, and is pursuing corporate social responsibility funds from the private sector both locally and internationally

- Aggressively mobilizing members' savings in order to use them in lending.

NACHU has carefully considered the uses for each new source of funds, and the potential impact on the costs to members for NACHU's lending and other support services. In order to both increase its MFH lending and to maintain its key services, NACHU hopes that different sources of funds will finance different activities:

Table 3: Summary of NACHU's Planned Services: 2007–2009			
Microfinance	Training and Mobilization	Technical Services	Lobbying and Advocacy Activities
Facilitate shelter for 1000 households	Increase the # of active cooperatives	Establish housing resource center	Increase capital base for microfinance
Maximize coop savings and credit potential	Increase members in savings programs	Pilot test low income housing designs	Lobby for capital from banks, donors, govt.
Increase small business loans	Hold courses in financial management	Develop demo projects & environmental regs	Sponsor forums on land allocation & land titling
Increase infrastructure loans: water, sewer, electric, road access	Certify trainers in financial and credit management	Initiate non-member property management services	Sponsor forums on infrastructure

- **Microfinance:** commercial lines of credit, member savings, low cost loans
- **Community mobilization, training, lobbying and advocacy:** donors
- **Administrative costs:** internally generated funds from buying and selling land, property management and technical services, donors.

If the overall cost of capital increases under the new strategy, NACHU's lending interest rate would ultimately need to be raised. This increase would require a careful explanation for the members. However, in the immediate future, NACHU will maintain the 15 percent interest rate. This rate remains viable due to reduced risk associated with better loan supervision, and monitoring and training of cooperatives.

Finally, as an important new activity in its growth strategy, NACHU plans to leverage its technical capacity in property development, targeting mid-income earners who are currently not adequately served by the commercial banks or MFIs, and who are not necessarily coop members. This will entail building and selling houses, beginning on land that NACHU currently owns, and then purchasing land for future development. This activity is expected to increase NACHU's income substantially.

An Improved Housing Policy Environment for the New Strategy. NACHU has been involved in planning for the Government's initiative to address slum upgrading, as well as sites and services and urban renewal. Government has dictated major goals for KENSUP, hoping to have dedicated \$13 billion by 2020; however, limited funds seem to have slowed initial efforts. Serviced land is a key focus, and NACHU and others will form coops and assist people in addressing their housing needs. In fact, the Ministry of Housing expects that NACHU will have to expand its capacity.

NACHU is also assisting the United Nations' Water and Sanitation Project in the Kibera slum. Coop/community formation will be the next step following UN work in providing Kibera residents with ID cards, and defining neighborhoods internal to the slum.

These initiatives offer additional opportunities for donor support. However, they will also lead to increased demand for finance from NACHU and greater pressure for NACHU to expand and diversify its loan capital.

IMPORTANCE OF THE COOPERATIVE STRUCTURE

The cooperative structure helps NACHU provide holistic services that address the shelter needs of very low income clients. NACHU's provision of

technical services for housing and other community development support flows through the cooperative structure, improves customer satisfaction and increases member loyalty.

NACHU has used the cooperative structure to mitigate the risk of lending to poor clients with irregular incomes through the "double guarantee" of 5 individual guarantors plus the coop guarantee. NACHU also uses the cooperative structure to reduce monitoring costs of individual loans. The holistic approach, the cooperative guarantee, and the cooperative's role in loan monitoring have contributed to the provision of good quality housing for NACHU clients, and a healthy and growing housing microfinance portfolio.

Alternatives to the Cooperative Structure.

Although the housing coop structure may not be replicated in many countries, the combination of functions represented by NACHU's "one stop shelter shop" is an important model for improving housing conditions for the poor. These functions may be undertaken by various combinations of MFIs, NBFIs, NGOs, and governments.

Shelter—including land, infrastructure, and housing - is a complicated product, especially for the poor, and assistance is required not only with MFH, but also with access to land, tenure security, and low cost

infrastructure and housing design. The solutions chosen by lenders will depend in part on the roles played by others: that is, the extent to which government addresses land, infrastructure, and low cost building methodologies; whether other groups, usually NGOs, provide construction assistance; and whether community organizing needs to be an integral part of the shelter solution.

CONCLUSION

NACHU provides a successful example of an organization that offers a holistic approach to the challenge of improving housing conditions for the poor.

NACHU's advocacy, technical services, and housing finance address the broad range of needs of low income clients at affordable rates.

NACHU offers insights into issues being assessed by groups offering MFH worldwide: (1) whether the lender should offer construction assistance, (2) whether title or tenure security is a necessary prerequisite for a MFH loan, and (3) for slum upgrading projects, whether and how to address the community organizing aspect of on-site and greenfield projects.³

NACHU is at a critical juncture in its history. Savings and lending have grown steeply since 2004, but NACHU continues to face funding constraints and cannot aggressively seek new members. This challenge has led to the current aggressive strategic plan to increase the scale of operations via commercial rate loans, member savings, and guarantees for bank loans.

NACHU's new strategy recognizes the diversity of funding sources and has structured an integrated approach to match the appropriate kind of funding to the variety of services provided. NACHU's quest is to grow, seeking a new compromise among commercial funding, affordability, the provision of a broad range of services, and the ability to attain scale.

³ For a discussion of these issues and examples of MFH lenders with and without a broad-based shelter approach involving construction assistance and tenure issues, see Franck Daphnis and Bruce Ferguson, eds., *Housing Microfinance: A Guide to Practice*, especially chapters 3, 6 and 7.

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