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# Transforming slums by using access to finance

*Over the past three decades, Kenya's urban population has more than doubled and is expected to reach 50 percent by 2015. Poverty, poor government planning, and high population growth have contributed to the rampant increase of slum dwellings. However, small village savings schemes are helping address this problem*

Over the past three decades, Kenya has witnessed rapid urban population growth. During the 1989-1999 inter-censal period, the country's urban population more than doubled, [reaching 34.5%](#). This is expected to increase to [50 percent by the year 2015](#). Ineffective government planning, acute poverty (more than half of Kenya's population lives close to or below the poverty line) and high population growth have contributed to the rampant problem of informal settlements and slum dwellings which are prevalent in urban Kenya.

One of the biggest informal settlements in Kenya is the Mukuru slums. These contiguous belts of slums are situated on private lands or on contested public lands that are mostly unfit for human habitation. Because of their precarious tenure these settlements are often faced with the threat of eviction from the private owners. The constant threat of eviction, the high congestion and lack of basic services has pushed the residents of Mukuru to seek for more humane living conditions.

In 2007, leaders of a small saving scheme of slum dwellers approached Akiba Mashinani Trust (AMT) asking for assistance to purchase a 23 acre portion of land situated in Mukuru Kwa Njenga. The land belonged to a corporation called Milwhite Limited. In the initial meeting AMT committed to support the scheme but challenged the leaders to mobilise at least 2,000 members to save what they could afford on a daily basis in order to raise at least 20% of the purchase price.

## Financing the land purchase

Within three months of this challenge, the scheme mobilised about 500 members and their savings had reached Kshs. 6 Million (USD 71,300). AMT engaged with the land owner and negotiated the price down to Kshs. 81 million (USD 963,000) from Ksh. 104 million (USD 1,235,000). During this time, the savings scheme aggressively recruited members and today the Mukuru Saving Scheme has recruited 2,200 members.

Unfortunately AMT did not have sufficient funds to finance the land purchase and therefore needed to mobilise funds directly from commercial banks. AMT consequently approached several

banks, all of whom were hesitant to engage though they were impressed by the excellent saving history of the scheme. Their apprehensions were:

1. They were wary of transacting business with such a large group of slum dwellers. They considered slum dwellers as an amorphous group of disorganised people with little or no organisational structure.
2. All the institutions approached did not have a product for middle term loans for low income earners.
3. The banks did not want to use the land as collateral as the reputational risk of trying to sell land belonging to slum dwellers was too high in the event of default.

Despite these impediments and after nearly two years of searching, AMT was able to secure a 5 year bank loan of Kshs. 55 million (USD 653,600). This was only after placing a cash guarantee of Kshs. 24 million (USD 285,000) obtained from SDI through the support of the Bill and Melinda Gates Foundation. The loan attracted a 16% interest rate (15.75% base rate + 0.25%), which however rose to 25.25% (25% base rate + 0.25%) within a year.

Thanks to the vibrant savings of the Mukuru residents and the liquidation of the cash guarantee, the loan was fully repaid within 1 year 7 months of the disbursement. Today, the property carries an asset value of about Kshs. 600 million (USD 7.1 million).

### **Developing housing designs**

Due to the densities involved, it was apparent that the Mukuru project would be a medium rise housing development. This model came with various challenges, the most nagging being that of affordability. From the appraisals conducted by both AMT and the saving schemes, it was clear that the maximum monthly mortgage repayment that most members could afford was Kshs. 2,000, roughly what they were currently paying as rent.

Two major challenges faced the technical team:

1. How to develop a sustainable neighbourhood that is aesthetically acceptable, with sufficient facilities such as schools and play grounds and yet accommodate all the savers on a relatively small portion of land.
2. How to develop at least 45 sq metres of housing for every household at an affordable price and within an affordable financing scheme.

Eventually it was agreed that the project would develop 2,000 units for the savers. Most of these housing units would be developed incrementally to ensure affordability.

### **Organisation and funding**

The Mukuru Greenfield housing project is just one of several projects that AMT is currently supporting on behalf of the Kenya slum dweller federation. With an annual operational budget of only USD 250,000, AMT is completely overwhelmed.

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The total cost of the Mukuru project is roughly USD 40 million. The technical costs for successfully packaging a project of this scale would be conservatively 10% of the cost of the project, USD 4 million (the technical team includes architects, engineers, planners, lawyers, quantity savers etc). As a result, AMT has had to rely on the goodwill of professionals to support the project on a partly pro bono basis. This has often led to inordinate delays. Many social issues have arisen due to these delays in implementation and the project has stalled as efforts are made to resolve these internal conflicts.

Since this project, very many groups in Mukuru and other slums have approached AMT for financial assistance in land purchase as well as housing development. All of these groups are forming vibrant savings schemes and mobilising people at an exponential rate. Their ability to effectively manage the savings, the political and human resources (based on the Mukuru model) is amazing. There is great untapped potential for affordable housing at a massive scale in Kenya.