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## Auditor General

### UMOJA ESTATE HOUSING GUARANTY PROJECT

(615-HG-003)

NAIROBI, KENYA

This \$10 million housing guaranty project is, perhaps, one of AID's most successful development initiatives in Kenya. Its success has been limited up to the present, however, by the inability of the Nairobi City Council to demonstrate that it can adequately administer such projects. Recent press reports which alleged certain irregularities in awarding construction contracts and allocating building plots did not clarify for the Kenyan public that the irregularities did not apply to the HG-funded portion of the project. As AID is closely associated with the Umoja project, these disclosures have adversely affected AID's image in the eyes of Kenyan public opinion. AID's planned support for a \$25 million follow-on project (Umoja II) may be affected if Nairobi City Council's administrative deficiencies and the harm done to AID's image are not quickly rectified.

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UMOJA ESTATE HOUSING GUARANTY PROJECT

(615-HG-003)

NAIROBI, KENYA

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## EXECUTIVE SUMMARY

### Introduction

In 1974, AID authorized two Housing Guaranty loans (615-HG-003 and 004) to provide shelter for lower income families in Nairobi and in a dozen of Kenya's larger secondary cities. The total guaranty authority issued at that time was \$15 million, of which \$10 million was allocated to the Nairobi City Council's proposed construction of Umoja Estate -- the subject of this audit report. The remaining \$5 million was lent to the GOK's National Housing Corporation for a scattered site housing project outside Nairobi. This project, 615-HG-004, will be the subject of a subsequent audit report by AAG/EAFR. Construction began about one year later and ended in 1978. Thus, the 2,924 units built under loan 615-HG-003 had been completed and occupied for over a year at the time of our review, and all AID guaranteed loan funds had been disbursed. In 1979, AID issued additional guaranty authority to finance the construction of a second phase (and completion) of the Umoja Estate in an amount not to exceed \$17 million. The total HG transfer proposed to complete the project is \$25 million. This AID guaranteed loan will cover the construction of about 3,400 additional units and related community facilities. Community development, social organization and income generation objectives of this follow-on effort will be assisted through the efforts of an AID grant funded technical adviser under centrally administered funds appropriated to the Integrated Improvement Project for the Urban Poor. The adviser has been in residence in Nairobi since October 1979 making preparations for the implementation of this large, integrated Phase II effort.

### Scope

The earlier stages of this project were included in the findings of Memorandum Audit Report No. 3-615-77-17, dated March 31, 1977. The report did not contain any recommendations. Later developments in the construction and sale of Umoja I were included among the findings of a report by the General Accounting Office of the U.S. Congress (GAO Report No. ID-78-44, dated September 6, 1978) on the worldwide AID Housing Investment Guaranty Program. Furthermore, in 1979, the AID Office of Housing (DS/H) funded a number of quite detailed and well prepared studies of the shelter sector in Kenya generally, and of certain program aspects in particular, which provided an appropriate benchmark for our review. Thus, the focus of our review and the scope of this report encompasses the period mid-1979 to May 1980. Our purpose was to gauge the extent to which (a) loan 615-HG-003 had met the objectives set forth in its authorization six years ago; (b) how well AID and Nairobi City Council (NCC) management had addressed the deficiencies noted in the 1979 consultants' study reports; and (c) how these two factors have affected preparations for the undertaking of loan 615-HG-005 to complete Umoja Estate.

We examined such AID and NCC records and interviewed such officials from both organizations as we deemed necessary to the conduct of our review. During the audit our findings were discussed with AID and NCC officials, and formally transmitted to RHUDO/E&SA in the form of a Record of Audit Findings. At the conclusion of our review, an exit conference was held with RHUDO/E&SA and Nairobi City Council officials. RHUDO/E&SA and USAID/Kenya officials were also provided with a draft report; and such comments as they formally transmitted to AAG/EAFR have been duly considered and included in this report where deemed appropriate.

### Findings, Conclusions and Recommendations

The Umoja Housing Guaranty project is, perhaps, one of the most successful AID development initiatives in Kenya. Its success is limited, however, by the NCC's inability up to the present time to demonstrate that it can adequately administer such projects in accordance with sound fiscal and post-occupancy management principles. Resolution of these problems, and the implementation of the project's \$25 million second phase, have been delayed by an unfortunate political dispute within the Government of Kenya (GOK). There is no indication at this writing as to when this impasse may be surmounted to the benefit of the shelter needs of Nairobi's lower income families.

Umoja's cost recovery objective has been delayed by the accumulation of unacceptably high home loan repayment arrearages. The build-up in arrearages may be ascribed to three principal causes: inadequate NCC accounting procedures; the lack of an aggressive, decentralized collection program to pursue homebuyers; and a lack of attention and/or political determination on the part of the NCC to pursue this project objective (pages 5-11).

While the exact extent of total subletting of Umoja units is unknown, it would appear that a majority of homebuyers have rented out their entire units to other persons. This practice contravenes a contractual prohibition against subletting undertaken by the homebuyers; however, the NCC has failed to enforce this ban. The subletting of units makes the problem of arrearages more difficult to solve, and probably detracts from the physical appearance of the project. Finally, it is our opinion that subletting of entire units significantly subverts the project's purpose of serving the shelter needs of lower income families (pages 12-19).

The physical appearance of Umoja Estate is adversely affected by piles of rubble in public areas, fences in poor condition, and a lack of trees and shrubs. NCC, in our opinion, has a clear responsibility to maintain Umoja Estate public areas and to periodically inspect the units' interiors. To date, NCC has not complied with these responsibilities to the detriment of the project's, its own, and AID's image (pages 19-23).

The construction development of the Umoja Estate within time and cost limitations is viewed as the project's signal achievement. The relatively fair and influence-free allocation of HG-funded units, given the intense political and tribal pressures which surround such procedures in Kenya, may also be termed a triumph. However, the lack of sound fiscal and post-occupancy management practices, compounded by the problem of unit sub-letting, have regrettably diminished the project's overall success. Finally, the NCC continues to lack a strong and definitive housing policy in favor of Nairobi's poor majority (pages 23-29).

Recently the Umoja Project Unit (UPU) has become involved in a GOK power struggle -- widely publicized in the local press. There have been allegations against various NCC and GOK officials regarding irregularities in the award of construction contracts and the allocation of building plots. Although these alleged irregularities do not seem to be related to HG-funded units, the press has not adequately clarified this situation. As AID is closely associated with the Umoja project, these disclosures have adversely affected AID's image in the eyes of the Kenya public (pages 24 to 29).

It is our opinion that most of Umoja's current problems can and should be resolved quickly. We make recommendations in this report to rectify the various deficiencies noted above. Most importantly, we believe that NCC should be advised that AID cannot enter into a contract of guaranty covering a loan for Umoja II until such time as steps are taken to repair the harm AID's image has suffered, and NCC takes effective action to address Umoja's present fiscal and estate management problems. Finally, it is our view that such steps should be undertaken within a reasonable period of time following issuance of this report. If not, RHUDO/E&SA and USAID/Kenya should request AID/Washington to reconsider its September 1979 authorization of a \$17 million HG loan to undertake Umoja II.

At this point we feel it well to point out that both RHUDO/E&SA and USAID/Kenya have expended considerable time and effort in attempting to correct the deficiencies in Umoja I described in the body of this report. That their efforts have not proven effective to date reflects more the complexities of events in the political arena of Kenya than any other factor. It is our hope that the findings, conclusions and recommendations of this report will assist both these AID offices to resolve the project's present impasses and move on to implementation of Umoja Phase II.

## BACKGROUND

### The Republic of Kenya

A country of roughly 225,000 square miles, Kenya lies astride the equator in eastern Africa between the Indian Ocean and Lake Victoria. Estimates of the country's population at the present time range to over 15 million persons, and growing at an alarming 3.5 - 4% yearly. At this rate, the country's population will approximately double by the end of the century. While still predominately rural in nature, Kenya's rate of urbanization (the natural increase of population in urban places augmented by immigration from rural areas) is more than double its over-all growth rate. The towns, comprising little more than 10% of the country's population, are doubling their population every ten years. The natural result has been an increase in urban poverty, mushrooming shanty settlements, and a sharp rise in the demand for housing and related social services.

### AID Shelter Sector Strategy

According to the USAID/Kenya Country Development Strategy Statement, "AID will provide financing and technical assistance to develop large-scale, low-income public and private shelter projects to demonstrate that (a) costs are fully recoverable, (b) recoveries can be reinvested in other similar projects, and (c) institutional improvement in shelter policy, planning, design and administration can be replicated on a broad scale . . . On the public side, it will concentrate on strengthening the capacity of local authorities to implement and administer their own low cost shelter programs and the capability of national-level institutions to formulate coherent policies, engage in long-term program planning, acquire serviced land, and provide infrastructure and essential commodity facilities."

### AID Housing Program Management

The Agency's shelter sector resource transfers are authorized in Foreign Assistance Act Sections 221, 222, 223, and 238 which provide for an AID all-risk (except against investor's fraud) full faith and credit guaranty on behalf of the U.S. Government to eligible U.S. investors on loans made in support of AID approved shelter projects in less developed countries. The program is intended to be financially self-sufficient, supporting itself from fee income associated with authorized loan guaranties. The Office of Housing is located within AID's Development Services Bureau (D/S/H), and provides policy guidance and program support to six regional

field offices worldwide. AID's regional office of housing with program cognizance for AID housing projects in Eastern & Southern Africa (RHUDO/E&SA) is located in Nairobi, Kenya and is staffed by three U.S. direct-hire and one foreign service national professionals. As regards shelter projects in Kenya, the USAID/Kenya Mission Director advised us he regards the RHUDO staff in Nairobi as his "housing division" insofar as his country program is concerned. The responsibility for planning, design and implementation of Housing Guaranty (HG) projects lies principally with RHUDO. This office has been active in Kenya since 1975, although the first housing guaranty project dates back to the 1960's. Over the past two years, RHUDO has funded a series of studies dealing with general and specific Kenya shelter sector topics from which certain information presented in this report has been drawn.

### The City of Nairobi

According to Kenya legislation and practice, the capital city is the only one in the country which has been elevated above the legal status of "town." It is governed by a Mayor selected by, and from among, the 41 elected city councilors. Since independence in 1963, the Mayor of Nairobi has been accorded the deference otherwise shown only to cabinet ministers. The Mayor wields considerable power by virtue of his key committee chairmanships; however, his office is technically within the jurisdiction of the Ministry for Local Government and Urban Development. The Mayor is not a chief executive -- a role filled by the Town Clerk, whose functions are roughly analagous to those of an American City Manager. However, the powers of the Town Clerk are also limited by the statutory powers of other city officers, such as the Health Officer, who acts independently within his own area of jurisdiction. These separate mandates frequently cause friction and management problems, especially in the area of housing.

From a population of about one-half million at the beginning of this decade, Nairobi's population had roughly doubled by 1980 with consequently proportional increases in the demand for housing and related services. The Nairobi City Council's (NCC) shelter initiatives date to the 1920's but had, until the mid-1970's, been of a standard set during colonial rule, and therefore not affordable to any but upper-middle and high-income families. The mutually exclusive positions of maintaining high standards as opposed to lower-income affordability in housing were brought into sharp conflict by donor pressure (mainly IBRD and AID) which restricted financial assistance offered in the shelter sector to projects affordable by lower-income families. Although the donors may have won the day, their position has yet to be ratified by a formal Government of Kenya housing policy. The current GOK Five-Year Plan does, however, place greater emphasis on lower income housing than the previous plan did.

## The Umoja Housing Project

Acceptance by the NCC of AID's lower-income approach led to the authorization in 1974 of an AID guaranty for a loan (615-HG-003) between the Federal Home Loan Bank of New York and the Nairobi City Council in the amount of \$10 million.

According to the DS/H funded Kenya Shelter Sector Study issued in August 1979:

"The USAID staff involved with this project saw the principal goal as an institutional one: the redirection of the Nairobi City Council to a housing policy emphasizing lower cost units. The staff believed that pressure from both AID and the IBRD during an 18 month period from the end of 1972 to the beginning of 1974 was crucial in resolving the GOK housing debate in favor of programs of minimal cost shelter (rather than high cost 'showcase' projects)."

The AID Housing Investment Guaranty Paper confirms this view:

"The most important objective of the AID guaranteed loans is to help the GOK implement a housing policy with emphasis in favor of the poor by demonstrating that lower cost houses can be built - despite the rises in building materials and other construction costs. The accomplishment of the objective should have a significant impact on the GOK housing policy, particularly with respect to lower income housing. It is highly unlikely that the lower income housing program would proceed as projected without the input of the program. With HG funds, however, the program as outlined in this paper should be able to give an impetus and establish a new direction for the GOK's policy for lower cost housing."

Project development was handled by a specially established city office, the Umoja (a Swahili word meaning "unity") Project Unit, under the jurisdiction of a similarly established NCC committee (Umoja Project Committee). This separate organization was devised because of the project's size and the fear that including Umoja project development under another NCC department would overburden it to the detriment of both. Unlike the more autonomous IBRD project (known as Dandora -- located near Umoja), Umoja financial administration is the responsibility of the City Treasurer and completely outside the jurisdiction of the Umoja Project Unit.

## Status

Construction of the Umoja housing project was conceived of as a two-stage undertaking. The first phase, consisting of 2,924 units, was completed in 1978. All authorized AID Housing Guaranty loan funds have been disbursed. It is located on a single site in eastern Nairobi about 6 miles from the center of the city. The plots are laid out in hexagonal grids of 5, 6 or 8 houses. (See Exhibit B for maps and diagrams pertinent to Umoja Estate.) Seventy-five percent of the dwellings were built as "core" units capable of expansion at a later date, and many have been so enlarged. NCC funded the construction of a market, primary and secondary schools, a clinic and a nursery school. Mixed income housing has been added to provide for economic integration through the efficient use of downpayments and contractors' warranty holdbacks. These monies have financed the construction of 170 of a planned 255 units of middle income housing on the same site, but funded outside the housing guaranty loan, at a sales price of \$10,000 -- substantially more than the price of the AID sponsored units.

At the present time AID has issued an additional \$17 million guaranty authorization in order to begin construction of a second phase -- a total HG transfer of \$25 million is planned to complete the project. Building on lessons learned from phase I, the purposes of the follow-on project are more ambitious and complex: first, to increase the production of low-cost shelter within the context of a well-planned community and affordable by low-income households; second, to strengthen the capability of the NCC to plan, develop and manage such large-scale, comprehensive shelter and community development programs; and third, to enhance employment-generating and income-producing opportunities in Nairobi. Under the follow-on project, 3,400 dwellings will be built for sale including about 480 rental apartments and appropriate community facilities. Over 600 units of locally financed, middle-income housing are also slated for construction to complete the project's economic and neighborhood integration concept. Finally, 1,100 locally financed, market priced, serviced plots in the area called the "inner core" (see Exhibit B-2) will also be provided, making for a total of about 8,200 residential plots in Umoja of which just over 75% will be HG financed.

## AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### Home Loan Repayment Arrearages

Purchasers of Umoja units had accumulated repayment arrearages of about \$140,000 as of March 31, 1980. Although this was substantially improved over the \$480,000 arrearage total as of the end of 1979, the Nairobi City Council (NCC) has yet to institute an active collections policy that would prevent large arrearages from accumulating. A build-up of payments in arrears delays the project's cost recovery objective and worsens the NCC's deficit cash flow position.

### The Repayment Obligation

According to the Tenant Purchase Agreement\* homebuyers at Umoja were obliged to make a deposit or downpayment of from \$200 to \$500 dollars (in equivalent Kenya shillings), depending on the size of their units. "The balance of the purchase price . . . together with interest on the amount of such balance for the time being remaining unpaid at the rate of ten (10%) per centum per annum shall be paid by Three Hundred (300) equal monthly installments of principal and interest combined . . . ." (See Exhibit A for complete text).

At the present time, using an exchange rate of US\$1.00 = K.Sh 7/50, global monthly payments, including principal, interest, taxes, insurance and "ground rent" are: (rounded)

<u>Unit Size</u>	<u>Monthly Payment</u>	<u>Downpayment Required</u>
1 Room Unit	\$39	5% (of sales price)
2 Room Unit	45	10% "
3 Room Unit	47	10% "

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\*Unlike normal U.S. practice, the sale of an Umoja unit did not involve the execution of a "fee simple" title deed or mortgage loan. Umoja Estate land was owned by the GOK which conveyed same to NCC for a term of 99 years. Homebuyers at Umoja are called "Tenant Purchasers" because, after they complete repayment of their long-term (25 year) loan, they are then granted a 50-year lease to their units. Ultimate title, however, is retained by the GOK.

### Accumulated Arrearages

Responsibility for collection of Umoja homebuyer loan repayments lies with the NCC's Treasurer. We visited the Office of the Treasurer and spent several days examining Umoja project books and records. We noted that considerable improvement had taken place in the accumulated arrearage situation between the end of 1979 (accumulated arrears of about \$480,000) and March 31, 1980, at which point we calculated that loan repayments in arrears had dropped by about 70% to \$140,000. While this amount may not at first appear to be significant, when divided by a weighted average monthly payment of \$41, accumulated arrearages at March 31, 1980 may be determined to equal more than 3,400 average monthly payments.

This decline in arrearages is probably due to a well publicized campaign on the part of NCC advising homebuyers at Umoja that eviction actions would be taken against delinquent borrowers of home loans. This campaign was instituted at the insistence of RHUDO and the USAID who made NCC aware that AID's approval of Umoja II was contingent upon improved collections. Eventually, eviction actions were taken in more than fifty cases; however, it is not clear how effective these measures will be over the long term. This is due to the fact that in many cases the original homebuyers (known as "allottees") were found not to be living in their units which had been rented or "sublet" to other persons. (The practice of subletting is dealt with in another section of this report.) Furthermore, there is no indication that the NCC has adopted a policy and procedures that would prevent arrearages from re-accumulating.

### Provisions Unenforced

'The Tenant Purchase Agreement also provides that a default of more than 30 days in any installment of the loan repayment shall render ". . . the balance thereof . . . together with accrued interest thereon . . . payable . . . to the Council on demand . . . and recoverable by action . . . ." We found no evidence, however, that the NCC had exercised its rights under this provision to "call the loans" of delinquent borrowers. Nor have we found any indication that NCC has attempted to apply penalty interest charges on late payments made by Umoja homebuyers. We believe such charges are technically feasible under the Tenant Purchase Agreement as presently written.

### Impact of Arrearages

Among the principal objectives of the 615-HG-003 loan were those of demonstrating that a lower income housing project could be built and that its cost would be recoverable by its sponsor, the NCC. The NCC is responsible for making on-time repayments semi-annually to the AID-guaranteed U.S. investor, the Federal Home Loan Bank of New York.

Such payments are made through the Central Bank of Kenya in U.S. dollars and include principal, interest at 8.7%, and an AID guaranty fee of 0.5% on the declining principal balance. Although to date the NCC has met its repayment obligations to the U.S. lender, homebuyer repayment delinquencies create shortfalls that the NCC must offset from its other sources of income. According to recent press reports published in Nairobi, the present cash flow situation of the NCC shows a substantial deficit between income and expenses. Consequently, repayment arrearages by Umoja homebuyers only compound an already serious financial "crunch" being experienced by the NCC.

#### Causes of the Arrearage Problem

In 1979, DS/H and RHUDO/E&SA funded two management reviews which touched upon the problem of Umoja repayment delinquencies. A June study report prepared by a consultant from the National Savings and Loan League of the USA found that:

"The NCC is clearly experiencing difficulties in effective portfolio management, the cause of which is found primarily in its accounting and recordkeeping system, which in itself is serving to negate any effective form of management information flow . . . design of the system is antiquated . . . data retrieval is difficult and time consuming . . . the system is almost totally manual (which) increases the chance of error and loss of effectiveness . . . and constrains an institution to employ more staff as the portfolio grows . . . The unusually high delinquency rate . . . prevailing in Umoja . . . is probably attributable to a large extent to the accounting problems mentioned above."

In our own review of Umoja books and records we noted that the situation remained essentially unchanged at the end of March 1980. One accountant and three bookkeepers were employed to maintain the project's books, whereas at least double that number are required. Examination of Umoja records entails literally "flipping through" almost 3,000 ledger cards. We were unable to reconcile our count of homebuyer ledger cards (2,917) with that of the Umoja Estate Accountant (2,918). Neither of these agree with the number of units built (2,924) under the IIG loan.

No summaries of the accounts are regularly prepared, nor are delinquent accounts "aged" or analyzed. We noted at least two cases in which the homebuyers had never made a monthly payment after making their down-payments. Not surprisingly, we found that the NCC financial report of December 31, 1979 was substantially in error as regards delinquencies reported to AID which were understated by 32%, or about \$156,000. Financial statements for the project have not been published since 1977.

As part of its work in preparing an Umoja institutional analysis and plan, the local branch of the CPA firm of Coopers & Lybrand took note of the above described conditions, and went on to add that Umoja project management was further hampered by "a lack of on-site collection facilities; (and) lack of integration between loan accounting, payment collection and follow up of arrears."

In the opinion of Coopers & Lybrand:

". . . experience has shown that despite the timely and accurate production of accounting records, it is, in the final analysis, the design and implementation of stringent debt collection and enforcement procedures that ultimately affect the level of arrears."

Again, our own review demonstrated the accuracy of these comments made in August 1979. Over 99% of homebuyer payments were made at Nairobi City Hall -- in the middle of the city and six miles from the project site. No on-site facilities have as yet been provided for making payments, and we noted long lines of people between the hours of 9 a.m. and 3 p.m. waiting to make loan payments at city hall. In contrast, we would point to the precedent established at the World Bank sponsored Dandora housing scheme not far from Umoja, where on-site payment facilities have existed for some time. Finally, we have noted that the market area of Umoja, located on a central site within the project, appears orderly and well managed. We were advised that NCC has placed an on-site manager and office at the site with the power to collect rents and fees from market stall operators.

We were advised by the Umoja Project Director, an expatriate engineer of Pakistani origin who resides in Kenya and who was hired by the NCC to develop this project, that he has no jurisdiction over the Umoja accounts or loan payment collections, despite the fact that an accountant employed by the City Treasurer is charged to Umoja Project Unit operating expenses. He did advise us that he regularly places on the agenda of the appropriate NCC committee with purview over the City Treasurer's activities, a summary of the accounting and collections deficiencies as he knows them -- however, to little avail.

### Conclusion

The problem of repayment arrearages at Umoja is directly attributable to several causes: (a) inadequate books and records, and (b) the lack of an aggressive, decentralized collection program. Inasmuch as these defects have been studied and reported on and the remedies are a matter of long-standing record, we are forced to conclude that another principal cause of arrearages is a lack of attention and/or political determination by the NCC to permanently rectify this situation. Consequently, we are making the following recommendation.

Recommendation No. 1

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that AID cannot execute a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until:

(a) Umoja homebuyer accounts have been brought up to date, audited, and a comprehensive analysis of delinquency made to the satisfaction of RHUDO/E&SA or its designee(s);

(b) a decentralized collection facility has been established and operating at the Umoja project site for a reasonable period of time;

(c) an accounting system, including at least partial, if not total, mechanization has been introduced and is operating at all collection points used by Umoja homebuyers; and

(d) procedures have been developed and placed into operation for a reasonable period of time to pursue delinquent Umoja homebuyers under the terms and conditions of their Tenant Purchase Agreements.

In response to the above and other similarly formulated recommendations in the draft report, RHUDO/E&SA advised us they disagree with the intent of our recommendation to delay execution of the follow-on 615-HG-005 project until such time as the deficiencies noted in Umoja I are corrected. Specifically, RHUDO stated:

"We agree that several remedial steps must be taken by the Council to bring Umoja Estate up to standard. However, for reasons given below we request deletion of the words "that the NCC be formally advised that AID will not execute a contract of guaranty in respect of a loan to fund Umoja Phase II until the NCC has effectively addressed" and insertion of "that the Implementation Agreement incorporates conditions precedent to the several disbursements designed to ensure that NCC takes the necessary series of steps to effectively address".

"We feel that conditions precedent to disbursement (CP) are the most effective means to ensure compliance with AID requirements, and that certain requirements inherently should be met only during project implementation, such as mechanization of account and maintenance of developed public areas."

It is clear from the foregoing that RHUDO would have us agree to their proposed resolution of Umoja I fiscal and administrative/estate management problems as an integral part of the implementation plan of the follow-on project. For example, in response to our statements of preliminary findings, RHUDO advised us as follows:

". . . the authorization of the last \$8,000,000 of the \$25 million required for this project is contingent upon, inter alia, 'Council action addressing the accounts delinquency problems of Umoja I . . . ."

". . . conditions precedent to disbursement of any funds will include requirements for physical and administrative plans to correct and prevent recurrence of various estate management problems." (emphasis added)

Since it may take several years to disburse the first \$17 million already authorized to begin Umoja II, we take exception to RHUDO's proposed plan to correct the project's fiscal problems, or to set such an indefinite limit in doing so. Correction of estate management problems has not been made a condition precedent to "disbursement of any funds," rather, only plans for their correction have been required. According to the 615-HG-005 draft Implementation Agreement, action will be required only as conditions precedent to AID's Guaranty of additional and final disbursements; i.e., before the second or subsequent disbursements but not later than before the last disbursement. Given the seriousness of the problems noted in this report, we feel these conditions require strengthening. Furthermore, we doubt that any lending institution would make a \$17 million loan to the NCC given its present state of fiscal and administrative disorder were it not for U.S. Government and COK full faith, all risk guaranties. Finally, we see no good reason why AID should assume an additional, large contingent liability in the form of a guaranty to cover a \$17 million loan to NCC for Umoja II until such time as NCC complies with its obligations under the Umoja I project. Consequently, we have retained our recommendation that AID not enter into any such guaranty agreement with an eligible U.S. investor until the problems of Umoja I are resolved.

### Penalty Interest Charges

As noted previously in this section, NCC does not charge penalty interest on late loan payments made by homebuyers. This not only denies to the financially strapped NCC a legitimate source of extra income, but also removes any incentive for on-time payment on a monthly basis as required in the Tenant Purchase Agreement.

Despite the fact that provision for such charges was not explicitly included in the Tenant Purchase Agreement, we have noted the following parenthetical statement on page one of the agreement (see Exhibit A for full text):

"(Notwithstanding the above the Council reserves the right to vary the rate of interest (10% per annum) payable during the period of this Agreement)"

At one time during the development of this project, some consideration was reportedly given to adopting a variable interest rate as part of the loan repayment conditions. Although this was not eventually instituted, in our opinion, this provision will support the "varying" of interest charges from time to time and justify charging late payment penalties. We have noted support for the desirability of such charges in the Coopers & Lybrand study report alluded to earlier in this section, which recommended:

". . . the introduction of penalty charges for arrears of over two months in the form of interest payable on amounts outstanding, equating to the opportunity cost of capital to the (Umoja) Project Unit . . . ."

The Coopers & Lybrand recommendation is of nine months' standing at this writing. What is required is the political will to implement it.

#### Recommendation No. 2

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that, in their opinion and in the opinion of AAG/FAFR, (a) sufficient provision exists in the Umoja Tenant Purchase Agreement to support charging penalty interest on late loan payments made by homebuyers, and that (b) AID will not execute a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until collections of payments overdue more than two months include penalty interest charges in an amount at least equal to the cost of capital to the Umoja Project Unit.

### Subletting of Umoja Units

A study of Umoja occupancy patterns reported on over two years ago by University of Nairobi researchers disclosed that a majority of Umoja units had been completely sublet by the original allottees. The situation at this writing appears to be substantially unchanged despite explicit prohibition of this practice in the Tenant Purchase Agreements signed by Umoja homebuyers. In our view, the subletting practice not only violates the terms of the Agreements, but also calls into question the project's objective of serving the shelter needs of lower income families.

### Subletting Prohibitions Do Not Coincide

The Umoja Tenant Purchase Agreement, in pertinent part, states the following as regards subletting:

"Until the grant of the Lease of the Premises (i.e., until the home loan has been paid off). . . the Tenant Purchaser hereby covenants and agrees with the (Nairobi City) Council as follows:

- (a) To reside in the Premises;
- (b) During the first five years of this Agreement not to sublet the premises or any part thereof or assign his rights under this agreement unless:
  - (i) he shall move his residence from the City of Nairobi, or
  - (ii) for any other reason he shall leave the City of Nairobi for a period exceeding one year; or
  - (iii) the Council shall approve the subletting or assignment."

The Implementation Agreement executed between AID and the NCC in 1975 provides:

"Section 2.05. Tenant Sublet. No tenant purchaser will sublet the housing unit without the written authority of Borrower (NCC) during the term of the tenant purchase agreement. In event the tenant purchaser sublets the housing unit for speculative purposes, the Borrower shall strictly enforce the terms of the Tenant Purchase Agreement."

In our opinion, a lack of consistency exists between these two Agreements. The Implementation Agreement language appears to imply that only complete subletting is prohibited until the home loan is paid off. RHUDO officials advised us they have no objection to partial subletting of Umoja Units, so long as the original allottee maintains his principal residence in the partially sublet unit. The Tenant Purchase Agreement, on the other hand,

appears to exhibit internal inconsistency between the first line and clause (b), that is, limiting the subletting prohibition to the first five years seems to contradict the phrase, "Until the grant of the Lease of the Premises. . . ." Furthermore, the five-year and partial subletting prohibitions do not appear to agree with the intent of the Implementation Agreement. We were unable to elicit a satisfactory explanation for these inconsistencies from either RHUDO or NCC officials.

In response to our draft report, RHUDO stated:

"Like much legalese, the TPA could be more clear. However, on page 18 you cite a clause, (a) of the TPA which requires owners to occupy their units. The subsequent clause, (b) of the TAP does not nullify clause (a) which goes further than the implementation agreement requires. Also, the law does not prevent the Council from waiving clause (a) and giving permission to sublet.

Consequently, RHUDO feels that the terms of the TPA do not conflict with the intent of the implementation agreement. We do feel that failure to enforce the TPAs is a serious problem and that its terms should be interpreted to allow Council regulation of subletting."

We do not agree with RHUDO's analysis of the Tenant-Purchase Agreement. If a purchaser has a good reason for subletting; e.g., transfer to another city for employment reasons, then the NCC may release him/her from the subletting ban. We were informed by the Umoja Project Director, however, that no subletting requests had been received, despite the high incidence of subletting.

#### Extent of Subletting Sampled

In early 1978, the University of Nairobi's Bureau of Educational Research interviewed 295 inhabitants of the (up to then) assigned 1,916 Umoja units in a RHUDO-funded study. In summary fashion, the University of Nairobi researchers found:

"Persons assigned housing in Umoja Estate are more likely to use their homes for income-generation than for residence. . . . at least 59.4 per cent of the houses in the Estate are now occupied by the original allottees."

". . .for the Estate as a whole, non-resident allottee landlords receive a return of 75 per cent from their rentals of these houses."

"A high proportion of the original allottees (85.5 per cent) have incomes within (the upper and lower limits approved by AID as family eligibility criteria for Umoja units). . . In the case of non-allottees, the proportion of households with monthly income within the approved range drops to slightly over one-half (54.1 per cent). . . As the size of the dwelling increases, the proportion of households - both allottees and non-allottees - with incomes exceeding the Council's upper limit also increases."

"On the average, the monthly incomes of non-allottees are higher by one-third than the incomes of allottees."

Extent of Subletting Currently Unknown

The Umoja Project Director, an Executive Officer of the NCC, advised us it was his impression that the incidence of complete subletting had diminished since the conduct of the University of Nairobi study. However, he emphasized that he had no basis in fact to support this opinion, except that nine allottees were at one point evicted from (but later reinstated in) their units for having sublet them entirely. RHUDO officials stated frankly that they were unaware of the extent of subletting in Umoja. Press reports in both Nairobi dailies during the April mass eviction of delinquent Umoja residents carried interviews with persons surprised by the eviction actions, one of whom complained that:

"The City Council is aware that most of the houses are occupied by sub-tenants and not by their owners."

Due to staff and time limitations, we were unable to make a statistically valid determination of the extent of subletting entire units -- a job which would have required several hundred interviews, given the universe of nearly 3,000 Umoja units. We thus limited our survey to 12 units selected at random for visitation, the results of which are summarized below:

No. of units visited .....	12
No. of inhabitants at home.....	10
No. of units where inhabitants advised us the allottee was not in residence.....	8

As regards rental amounts, our survey revealed that allottees were deriving the following gross income by size of unit (expressed as a percentage of the monthly payment of principal, interest, taxes and insurance):

1 Room . . . . .	145%
2 Rooms . . . . .	161%
3 Rooms . . . . .	230%

These data indicate that the University of Nairobi findings of two years ago probably remain valid, although we would agree that no one knows for certain the extent to which Umoja units are completely sublet at the present time. In our view, however, the NCC, as the project's Borrower/Administrator, should not only be aware of the extent of this problem, but also should long ago have instituted measures to implement Tenant Purchase Agreement prohibitions against this practice.

### Effects of Subletting

There is some disagreement as to the effects of widespread subletting in Umoja. The consensus of opinion holds that partial subletting of units is within the rights of an allottee who maintains his principal residence in the same unit.

In response to our draft report RHUDO stated:

"Please note that partial subletting is not banned by the TPA; even in the first five years it is allowed under clause (b) (iii). . ."

Again, we feel it is equally clear that subletting within the first five years of tenancy may be permitted by the NCC for valid reasons only, but no such requests have been made.

As regards complete subletting, one opinion holds that so long as the original allocation process was fair, it should be the allottee's right to use his unit as he sees fit, be it for shelter, income, or both. Generally speaking, the allocation process for HG-funded Umoja units that took place over three years ago was, by all responsible accounts, free of political influence. Nevertheless, we find ourselves in disagreement with this permissive view of total subletting for a number of reasons.

In our view, the purpose of the AID Housing Investment Guaranty Program and the HG-funded Umoja project is to provide shelter, not income, to eligible lower income families. Furthermore, we understand that a definition of effective demand for shelter at these income levels limits eligibility to those families who want, need, and can afford the type of shelter being offered. It would seem to us obvious that allottees who completely sublet their Umoja units have access to other accommodations; i.e., they do not need these units, or at least they prefer the income derived from them to the shelter the units offer.

In response to our draft report, RHUDO/E&SA made the following comments:

"The usual definition of effective housing demand is not so kind to the poor, as it does not include need, only capacity and willingness to pay for new or improved housing. Even if

we drop "effective" and retain "need" the question remains - need for what? Certainly not shelter (without regard to quality) because virtually everyone in Kenya has shelter of some sort. Better shelter? Better income?

"It is our view that beneficiaries need both better shelter and better income and each one judges the relative worth of these potential benefits. AID seeks to restrain individual exercise of that judgment when feasible, on the theory that we know - better than they - what is good for them or that we seek some social benefits which may not be valued by individual beneficiaries. When we cannot effectively restrain, we may allocate at cost price and try to regulate, or we may allocate at market price and let the market regulate."

In our view, RHUDO's statement seeks to rationalize the present situation while ignoring the rigorous proscription of subletting in its own Implementation Agreement, which neither it nor the NCC have attempted to implement. It is quite clear to us that this proscription is based on the allottees' need for housing or it would not have been given such prominence in the first place.

We would also point to the contractual prohibitions contained in the Tenant Purchase and Implementation Agreements which explicitly prohibit subletting. Moreover, we would refer to another finding of the University of Nairobi study of Umoja which disclosed that:

"Allottees are more likely than non-allottees to take care of their units. . . ."

Finally, there does not appear to exist any evidence to suggest that allottees who sublet their units are any less delinquent in their home loan payments than allottees who reside in their units. In fact, since NCC does not know where these people reside, their absentee ownership makes delinquencies all the more difficult to pursue.

For all the above reasons, we believe the practice of complete subletting of Umoja units should, insofar as is possible, be eliminated.

#### Sanctions Unenforced

The last two sections of the Tenant Purchase Agreement provide sufficient sanctions, in our opinion, to enforce the terms and conditions set forth therein. In summary, these remedies allow the NCC, after giving not less than 30 days' written notice, to cancel the Tenant Purchase Agreement, resume possession of the premises, and dispose of same as the NCC sees fit. The history of project occupancy to date discloses, however, that the NCC

has only sparingly resorted to these sanctions, for the most part in the case of delinquent payment of home loans. The Umoja allottees appear generally to ignore the subletting prohibition and the procedures for obtaining NCC approval, even in cases where subletting is justified.

### Conclusions

The problem of complete subletting of Umoja units is attributable to the allottees' non-observance of the terms and conditions of their Tenant Purchase Agreement and the NCC's failure to enforce same. Inasmuch as Umoja homeowners are obliged to complete their units, and a substantial majority have already completed them, or are in the process of doing so, the speculative advantage available from renting out fully expanded units would appear difficult to resist. Given the amount of income needed in order to be able to afford the rentals currently being paid for these units, we believe that the majority of current subtenants would not qualify as eligible lower income allottees, a view concurred in by the Umoja Project Director, but not by RHUDO/E&SA staff. We would further point out that even if the subtenants do qualify, the University of Nairobi study reveals that, as a class, their incomes tend to be substantially higher than those of the original allottees. For these reasons, we are forced to conclude that the practice of subletting detracts substantially from the project's purpose of meeting the shelter needs of lower income families and should not be condoned.

During the audit, RHUDO/E&SA formally advised us, in part:

"There is, we definitely agree, one reasonable principle which follows from your concern, namely that one household should be allocated only one house. We will insist that Council diligently strive to enforce this principle and to eliminate subletting of entire houses in all of Umoja during implementation of Umoja II."

In response to our draft report, RHUDO/E&SA made the following further comments on this topic:

"We do not concur in the view that a majority of the Umoja tenants would not qualify as allottees, because nobody really knows. However, the only survey of actual occupant incomes showed that most of the tenants were eligible when the survey was conducted in 1978.

"The conclusion, which is consistent with high rents and low incomes, is that most tenants pay a larger share of their income for shelter than do occupying allottees. In a town like Nairobi where good housing is in short supply, we consider this conclusion to be the most reasonable and suggest that it be introduced."

We believe that RHUDO/E&SA's statements demonstrate that it has not sufficiently reinforced Section 2.05 of the 615-HG-003 Implementation Agreement with the NCC. Furthermore, we are unable to agree that either RHUDO/E&SA or the NCC should defer striving to eliminate subletting of entire houses until Umoja II gets underway. Consequently, we are making the following recommendation:

Recommendation No. 3

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that AID cannot execute a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until the NCC, using its own resources, determines which units at Umoja are not occupied by the original allottees, and (b) applies the sanctions provided in the Tenant Purchase Agreement to eliminate subletting entire units.

In response to the draft report at this point RHUDO/E&SA made the following comment:

"Regarding Recommendation No. 3, if NCC uses Umoja II loan proceeds it will be 'using its own resources'. If we add technical assistance to improve the use of these resources and to ensure Council actions on Umoja I and II will be compatible we will be using AID resources to advance AID objectives. It would be wrong to insist that implementation of Umoja II is contingent on correction of all faults in Umoja I. This requirement should be a condition precedent to the second loan (i.e. 005) draw."

Again, we respectfully disagree with RHUDO's position for the reasons cited in our comments to their response to Recommendation No. 1 of this report.

Recommendation No. 4

RHUDO/E&SA, in conjunction with USAID/Kenya, include among the preconditions to the disbursement of any construction funds under 615-HG-005 for Umoja II, amendments to the Umoja Tenant Purchase Agreement to provide for (a) forfeiture by the original allottees of all monies paid in respect of amortization of their loans (including downpayments and monthly home loan payments) in such cases

where allottees are found not to reside in their units (without having obtained prior NCC approval in writing for subletting same), (b) elimination of the ban on partial subletting, and (c) elimination of the 5-year limit on subletting entire units.

In response to the foregoing section of our draft report, RHUDO requested us to record its views on this matter as follows:

"It is the view of RHUDO that subletting in Nairobi cannot be stopped. It is accepted practice by households of all income levels and is viewed as a legitimate and desirable means to enhance income.

"It is the further view of RHUDO that unless a small army of social workers is hired to continually police the occupants of all units, enforcement of this provision will amount to nil. There are perhaps innovative ways to contain it, e.g., ID cards, but it cannot be stopped completely. There may be ways to regulate it, e.g., surcharge for permission, and some ways will be tested in Umoja II."

We conclude from RHUDO's statements that it considers the subletting process to be inevitable, but that AID should continue funding Umoja II despite this assessment. Again, we respectfully disagree. To what point, we would ask, was the considerable time and effort expended in ensuring that fair, random allocation of Umoja units was carried out if persons allotted units planned to make speculative rather than shelter use of them? We point out once again that such speculative use of units was specifically and rigorously banned in the project Implementation Agreement and, we believe, rightly so.

#### Umoja Project Maintenance

The public areas of the Umoja project site are not being adequately maintained. Furthermore, inspection of house interiors is not being carried out by the Nairobi City Council. The project's overall image is adversely affected due to these unsightly conditions.

#### Project Inspection

During our visits to the Umoja project site we noted the following conditions:

- Piles of rubble in streets and walkways.
- Fences in poor condition or absent altogether.
- A lack of trees and shrubs.

During our visits to a limited number of Umoja units, we also noted that due to the high density of inhabitants per unit (perhaps averaging 10 persons per house), interior maintenance of some units required attention.

#### Homebuyer Maintenance Obligatory

According to the terms of the Umoja Tenant Purchase Agreement, homebuyers are obliged to "maintain the premises in good tenantable and decorative repair and condition and to permit the Council. . . to enter upon and view the condition of the premises . . . and to give . . . notice in writing to the Tenant Purchaser of all defects and wants of preparation . . . which the Tenant Purchaser shall be liable to make good."

As regards the public areas of the project, we find no mention in the Implementation Agreement of an undertaking by the NCC to assume any maintenance responsibility. However, given the existence of an NCC Estate Management Unit, we believe that this post-occupancy obligation is clearly implied in the NCC's project sponsorship and development.

#### Unsightly Conditions Explained

The NCC Umoja Project Director advised us that the unsightly conditions prevailing in public areas of the project were partly due to deficiencies in project planning, and partly due to a lack of funding for anything but physical construction of the units and related infrastructure. Thus, no provision was made for landscaping or planting trees and shrubs. The rubble piles result from the removal of a spongy topsoil layer (prevalent on the project site) subsequent to construction of the basic units, but prior to the excavation of footings for unit expansions by the allottees. Given the grid layout of the units, this soil could only be removed from each lot by taking down the fences built at the rear of the units, many of which have been left down or replaced in a slipshod fashion by the homebuyers. After this problem became apparent, fencing was not included in the later stages of project construction. Refuse collection practices by the NCC were described as irregular and not satisfactory. Finally, we were advised that the Umoja Project Unit's limited staff was fully occupied in inspecting the footings for unit expansions and, therefore, no inspections of the superstructures were being carried out or planned for the immediate future.

#### Project Image Affected

The Umoja project is, perhaps, AID's most well known and best regarded development initiative in Kenya. This assessment is shared by AID as well as Embassy officials. Due to the "high profile" nature of this project, we interviewed our Ambassador regarding his views of the project. While noting the generally successful outcome of the project, our Ambassador

expressed great concern over the project's lack of maintenance, terming conditions in the public areas an "eyesore." We would add to this assessment our view that a lack of interior upkeep and inspection creates the potential for greater renovation costs in cases where units have to be repossessed by the NCC, aside from detracting from the value of the units themselves.

#### Unavailability of Funds Questioned

Despite the fact that no provision was made for post-expansion clean-up and repairs in the original project budget, we are not convinced that funds for these purposes cannot be found among the resources of the Umoja Project Unit. In the Background section of this report mention was made of the highly efficient use of homebuyer downpayments and contractor warranty holdbacks to finance the construction of 170 of the planned 255 middle-income units which the NCC has built in stages on the Umoja site. These units were sold to middle-income families at a sales price of \$10,000 each, substantially more than the price of HG funded units. The Umoja Project Director advised us that this price includes a substantial profit margin for the NCC. Middle income families are targeted for these units to comply with the project's economic integration objectives; and because these families can afford the high downpayments required and are able to find local financing for the remainder of the sales price, which the NCC does not finance. Thus, these funds (probably in excess of \$ .5 million or more) are "rolled over" at high velocity in order to continue this middle income building program. We feel that a small fraction of these funds would be put to good use by being applied to project clean-up and maintenance purposes.

#### RHUDO's View

Regarding physical maintenance and appearance of the estate, RHUDO/E&SA formally advised us during the audit that:

" . . . while Umoja Phase II addresses all (the conditions you have brought to our attention), we have recently been working with the Council to find the resources and most efficient method for removal of the rubble piles. It should be noted that Umoja II is designed to provide resources for completion of all of Umoja Estate, including the landscaping and estate management.

(Furthermore), . . . to assist Council with overall planning and implementation of good community management in Umoja, a resident (AID grant-funded) technical adviser has been provided. . . conditions precedent to disbursement of any funds (for Umoja II) will include requirements for physical and administrative plans to correct and prevent recurrence of various estate management problems."

## Conclusion

The physical appearance of certain aspects of the Umoja Estate detracts from the overall image of the project, and, to a certain extent, from that of its sponsors: Nairobi City Council and AID. In our opinion, the NCC has an implied, if not clear, responsibility to maintain Umoja Estate's public areas and to regularly inspect the upkeep of unit interiors. Furthermore, we do not view these responsibilities to be in any way contingent upon the receipt of HG loan funds for Umoja II because housing project maintenance is a normal operating expense of any city government.

### Recommendation No. 5

RHUDO/E&SA, in conjunction with USAID/Kenya, ascertain the availability of "rollover" funds generated from the construction and sale of Umoja I for the purposes of project clean-up and inspection of unit interiors.

### Recommendation No. 6

RHUDO/E&SA, in conjunction with USAID/Kenya, formally bring Umoja Estate maintenance deficiencies to the attention of the Nairobi City Council and advise the NCC that AID cannot execute a contract of guaranty with an eligible U.S. investor in respect of a loan for Umoji II until the NCC takes action to clean up and maintain the developed public areas at Umoja Estate.

### Recommendation No. 7

RHUDO/E&SA, in conjunction with USAID/Kenya, include in the 615-HG-005 loan (Umoja II) Implementation Agreement a covenant whereby Nairobi City Council expressly undertakes to provide all necessary public services and estate management functions to the entire Umoja Estate from its general funds, once the project has been completed to AID's satisfaction.

In response, RHUDO/E&SA noted:

"Regarding Recommendation No. 7, we feel that AID should seek full cost recovery and not suggest burdening the General Fund. Therefore, we will insist that NCC determine its total cost of services to Umoja Estate and charge enough to cover these costs."

Once again, we disagree with RHUDO's view. We could agree if all residents of NCC housing projects are treated alike, including renters. We reiterate our view that keeping city streets and public areas clean is a normal city function and quite appropriately a General Fund expense.

#### Non-Recordation of Agreements

We have seen no evidence to indicate that Tenant Purchase Agreements executed between the NCC and allottees have been registered as required in the loan Implementation Agreement. Recordation protects the rights of the parties to the agreement in cases where litigation may occur in respect of an Umoja unit.

#### Recordation Stipulated

The Implementation Agreement under loan 615-HG-003, Umoja I, in pertinent part states:

"E. The tenant purchase agreement shall be duly recorded or submitted for recordation in the Registry of Documents in Nairobi in such manner as to make it legally enforceable, in accordance with all its terms."

We visited the cognizant GOK office which has responsibility for recording Umoja Tenant Purchase Agreements and were advised by their officials that to date no such Agreements had been "duly recorded."

#### Project Manager Not Apprised

We made our findings on this matter known to the Umoja Project Manager, who advised us he was certain that some 1,200 Umoja Tenant Purchase Agreements had been registered in support of the first HG loan drawdowns. He further stated that thereafter the procedure was changed, because of the slowness of the recordation process, to allow a certificate of submittal for recordation to replace evidence of actual recordation. We subsequently requested the Project Manager to provide us with documentary evidence that some recordations had taken place. To date, however, the Umoja Project Unit has not responded to this request.

During the audit, RHUDO/E&SA formally advised us of their views on this situation as follows:

". . . the matter was examined in some detail in 1977 and we were advised that recording is desirable to protect the purchaser . . . As a practical matter we do not believe that failure to record jeopardizes the enforceability of the agreement but we would agree that proper legal procedures should be followed. We will pursue this matter during negotiations of the implementation agreement for 615-HG-005, Umoja II."

We agree with RHUDO/E&SA except as regards their plan to allow this question to remain unresolved until the implementation of Umoja II.

Recommendation No. 8

RHUDO/E&SA, in conjunction with USAID/Kenya, formally request the NCC to verify the status of Umoja Tenant Purchase Agreement recordation and take such action as they deem necessary to expedite the recordation process.

Attainment of Project Objectives

In our view, the history of the Umoja housing project to date may be termed generally successful. A number of the project's objectives were met and even exceeded. On the other hand, an equal, if not greater, number of objectives have been only partially or temporarily met, or hardly attained at all. The non-resolution of problems affecting Umoja I is attributable to an internal GOK political dispute of several months' standing that appears to grow worse with passing time. AID support for Umoja Estate completion may be affected if this impasse is not soon revolved.

Breakdown of Objectives

As we see them, Umoja project objectives can be broken down into four principal areas:

- Increase housing stock while demonstrating the feasibility of low-income housing construction.
- Improve NCC's institutional capacity to administer low-income housing projects, including their planning, design, construction development, allocation and sale, financial management and post-occupancy maintenance.
- Serve the shelter needs of eligible low-income families.
- Influence the GOK and the NCC to adopt a housing policy that will focus on the shelter and related needs of low income families.

Increase Housing Stock

The project added over 2,900 units to Nairobi's woefully inadequate stock of shelter at a time when population pressures continue to mount.

### Demonstrate Feasibility of Low Income Housing

Umoja I was delivered within the scheduled construction period, a factor which contributed much to the maintenance of sales price limits. Also contributing to this success was a well advised decision taken to increase the proportion of one-room units, which not only kept overall project costs within limits, but led to the project's exceeding unit production objectives. RHUDO/E&SA regard these accomplishments as "remarkable" and we would agree, given the project development constraints normally encountered in Kenya.

### Improve NCC's Institutional Capacity

While original project planning left something to be desired, Umoja II will be built in accordance with an improved, revised site plan. As noted earlier, construction of the project went quite smoothly as did, generally speaking, the allocation and sale of the HG-funded units. The first and third findings of this report, however, demonstrate that much remains to be accomplished before the NCC can claim to be able to adequately undertake the fiscal administration and post-occupancy physical maintenance of such large-scale projects. Thus, this objective is viewed as having been only partially achieved.

### Serve the Shelter Needs of Low Income Families

If one measures achievement of this objective by the efficacy of the allocation process, then the considerable effort that went into the scrutiny and verification of more than 9,000 applications for Umoja houses and the computerized random selection of allottees must be regarded as a highly successful effort. This is especially so given the intense political and tribal pressures to which all procedures of this kind remain subject in Kenya.

If on the other hand, one takes a longer-term view of this objective, and defines meeting shelter needs as just that, and not the conversion of units into income-producing fixed assets, then, based on the information set forth in the second finding of this report on subletting, this objective is deemed to have been met only temporarily in a majority of cases, until the subletting practice is eliminated.

### Influence GOK Housing Policy

The HG paper upon which authorization of this and a companion secondary cities project was based stated:

"The most important objective of the A.I.D. guaranteed loans is to help the GOK implement a housing policy with emphasis in favor of the poor by demonstrating that lower cost houses can be built - despite the rises in building materials and other construction costs."

Although the GOK has not adopted a formal housing policy to the extent donors might like to see in favor of the poor, RHUDO/E&SA has pointed out that "GOK housing policy, in fact, now gives much higher priority to low income housing than it did when (these projects were conceived)."

As regards NCC housing policy, RHUDO/E&SA shares our concern "that Council lacks a coherent policy and therefore we have provided in 005 (Umoja II), for assistance to Council in establishing a long-range housing programming unit." Thus, AAG/EAFR views the accomplishment of this objective as partial. Our greater concern here lies with the fact that GOK and NCC housing policies in favor of the poor seem to be contingent upon donor financing and shaped by donor requirements, rather than a spontaneous indication of government direction in the shelter sector.

#### Delayed Implementation of Umoja II

In the latter part of 1979, AID authorized a Housing Guaranty loan of not to exceed \$17 million to commence implementation of Umoja II. Early in 1980, RHUDO/E&SA and USAID/Kenya were prepared to begin negotiation of this project. These negotiations have not gotten underway, however, due to a GOK political impasse. Although the details of such a situation would usually fall outside the pale of our reports and the scope of our audits, the fact that the Umoja Project Unit has become involved in a GOK power struggle (widely publicized in the local press) has caused the problems of Umoja I to remain unattended, and delayed implementation of Umoja II. Briefly, the impasse sees the Mayor of Nairobi and a majority of city councilors aligned against the Minister for Local Government and Urban Development. The latter's position is supported by the Council's chief executive, the Town Clerk. Among the issues involved in this dispute (aside from the general one of the Minister's authority over the city government in Nairobi) is the status of the Umoja Project Unit.

The RHUDO/USAID view of this matter, which we share, holds that maintenance of a separate project unit for the development of Umoja II would be preferable to consolidation with NCC's Housing Development Department at this time. However, AID representatives, in their correspondence and conversations with Kenyan officials, have adopted a flexible stance which emphasizes efficiency and effectiveness of operations. In other words, if consolidation of the Umoja Project Unit with HDD is to take place prior to implementation of Umoja II, RHUDO/USAID would not be opposed so long as AID's interests are safeguarded within any new organizational structure proposed to implement the Phase II project.

Notwithstanding AID's conciliatory posture on this issue, matters took a turn for the worse when the Council decided to relieve the Town Clerk of his duties. This decision was immediately nullified by the Minister for Local Government and sustained by the President of Kenya; the Town Clerk was returned to office. However, the President has ordered the Attorney General to investigate allegations made against the Town Clerk and others. Apparently included in the scope of this investigation were charges that some Umoja units were misallocated several years ago, and that construction contract awards for work done at the Umoja site involved certain irregularities. Efforts to resolve the problems of Umoja I and begin the development of Umoja II were immediately brought to a halt as a result of these developments, with no indication as to how long this impasse will continue to block progress.

#### Allegation Details

Since the time our draft report was completed, further information has come to light in the local press which has led to the detention of the NCC's Umoja Project Unit Director. According to press reports, the Director has been indicted on 13 counts of receiving "kickbacks" totaling the equivalent of about \$50,000 in connection with construction contract awards for non-HG-loan-funded work (community facilities and middle-income housing units) located within Umoja Estate (see site plan at Exhibit B, page 2). It is not clear at this writing when this case will be brought to trial, or what its future ramifications will mean for the implementation of Umoja II.

As to the alleged misallocations of units mentioned earlier herein, local press reports indicate that these charges refer to the presently unimproved "inner core" area of Umoja Estate. The "inner core" area does not include HG-funded units, but this has not been clarified in press reports. The "inner core" area had been divided into plots, an undetermined number of which apparently were awarded without recourse to the random computerized "balloting" method used for allocating the HG-funded units. Rather, in 1978 a certain number of these plots were allocated without public notice by the then NCC officials, according to press reports, to prominent persons not otherwise deemed eligible for them.

#### AID's Image Suffers

While it seems clear at this point that the improprieties described above were not directly connected with the construction or allocation of units funded by AID project 615-HG-003, it is also clear that, in the eye of Kenyan public opinion, AID's sponsorship of Umoja Estate is not readily distinguishable from the irregularities which have surrounded the partial development and allocation of the site's "inner core." It is quite

clear as well that without AID's contribution, which is proposed to total \$35 million in HG loan funds, the development of Umoja Estate would not have been undertaken at all. We therefore consider it to be the responsibility of the NCC and GOK to correct any improprieties which may have detracted from AID's image as a result of its sponsorship of Umoja Estate before the second phase of the project is undertaken.

### Conclusion

AIG guaranteed loan 615-HG-003, Umoja I, is, perhaps, one of the most successful U.S. Government-sponsored development projects in Kenya. Its success is limited, however, by the NCC's inability up to the present to demonstrate that it can adequately administer such projects in accordance with sound fiscal and physical management principles. Resolution of Umoja's administrative problems, and the development of 3,400 much needed additional units under the proposed Umoja II, have been delayed by an unfortunate political dispute and the discovery of certain irregularities affecting non-HG-funded construction work and plot allocations. These alleged improprieties have adversely affected AID's image in the eyes of Kenyan public opinion as the principal sponsor of the Umoja Estate project. There is no indication as to when these problems will be resolved to the benefit of the shelter needs of Nairobi's lower income families.

In light of the foregoing, we are making the following recommendation:

#### Recommendation No. 9

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise Nairobi City Council that, prior to AID's executing a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II:

(a) NCC shall provide such evidence as RHUDO/E&SA and USAID/Kenya shall deem satisfactory to ensure that all plots and/or units located within the boundaries of Umoja Estate have been allocated or reallocated in a manner which (i) is consistent with NCC's published eligibility criteria for such plots and/or units, and (ii) has been given adequate publicity in the local press; and

(b) Umoja's administrative and fiscal problems, which are the subject of Recommendation Nos. 1, 2, 3, 5, and 6 of this report, be resolved to AID's satisfaction within a reasonable period of time, or RHUDO/E&SA and USAID/Kenya will have no alternative but to request AID/Washington to reconsider its \$17 million housing guaranty loan authorization made in September 1979 to undertake Umoja II (615-HG-005).

# BEST AVAILABLE DOCUMENT

EXHIBIT A

## UMOJA ESTATE TENANT PURCHASE AGREEMENT

AN AGREEMENT made the \_\_\_\_\_ day of \_\_\_\_\_

One Thousand Nine Hundred and Seventy \_\_\_\_\_

Between THE CITY COUNCIL OF NAIROBI a local authority constituted in accordance with the local Government Regulations 1963 (hereinafter called "the Council" which expression where the context so admits shall include its successors and assigns) of the one part and

(hereinafter called "the Tenant-Purchaser" which expression where the context so admits shall include his personal representatives heirs and assigns) of the other part.

WHEREBY IT IS AGREED as follows:—

1. The Council will sell and the Tenant Purchaser will buy free from any encumbrance ALL THAT leasehold parcel of land situated in the City of Nairobi in the Nairobi Area of the Republic of Kenya being a portion of Land Reference Number 34/2 & 34/4 Part and containing by measurement Nought Decimal Nought One Three (0.013 approx.) of a hectare of thereabouts and marked Number \_\_\_\_\_ for the purpose of identification only on the Block Plan registered in the Registry of Documents at Nairobi in Volume DI Folio 209/78 File DVIII TOGETHER with the detached/semi-detached/terraced dwelling house and other improvements erected and being

thereon (hereinafter called "the Premises") for the term of \_\_\_\_\_ years less the last three days thereof from the \_\_\_\_\_ day of \_\_\_\_\_

One Thousand Nine Hundred and Seventy \_\_\_\_\_ at an annual ground rent of Shs. 140/= and SUBJECT to the terms and conditions contained in or implied by the head title to be granted to the Council in respect of the said parcel of land and to the covenants and conditions hereinafter appearing or referred to. The exact surface of the said parcel of land has been established by a Surveyor and is on file at the office of the Council and a Deed Plan shall be made available to the Tenant-Purchaser upon payment in full of the purchase price of the Premises.

2. The Purchase price of the premises shall be Kenya Shillings (KShs. \_\_\_\_\_) which shall be paid by the Tenant-Purchaser to the Council as follows:—

(a) The sum of Shillings \_\_\_\_\_ (Shs. \_\_\_\_\_) by way of deposit and part payment of the purchase price which shall be paid on or before the execution of this Agreement (the receipt whereof is hereby acknowledged by the Council);

(b) The balance of the purchase price amounting to Shillings \_\_\_\_\_ (Shs. \_\_\_\_\_) together with interest on the amount of such balance for the time being remaining unpaid at the rate of ten (10%) per centum per annum shall be paid by Three Hundred (300) equal monthly instalments of principal and interest combined the amount of which shall be Shillings \_\_\_\_\_ (Shs. \_\_\_\_\_) each to be paid on the first day of every calendar month the first of such payments to be made on the \_\_\_\_\_ day of \_\_\_\_\_

One Thousand Nine Hundred and Seventy \_\_\_\_\_ and thereafter until the whole balance owing shall have been paid; (Notwithstanding the above the Council reserves the right to vary the rate of interest payable during the period of this Agreement)

**PROVIDED THAT**

(i) On any of the aforesaid days the Tenant-Purchaser after giving three months' notice in writing to the Council or on payment of three months' interest in lieu thereof may tender payment of the whole or part of the balance then outstanding being a minimum sum of Shillings One thousand (Shs. 1,000/-) or multiples thereof of the purchase price accrued interest and all other moneys due under this Agreement upon receiving payment in full the Council shall accept such payment in full and final settlement of the whole amount payable;

(ii) If default shall be made in payment of any of the instalments of principal and interest mentioned in Clause 2(b) above for thirty days after the same shall have become due and payable then the whole of the purchase price or the balance thereof remaining unpaid together with interest thereon as aforesaid shall forthwith become payable and be paid by the Tenant-Purchaser to the Council on demand and be forthwith recoverable by action but so that interest at the rate aforesaid shall continue to accrue until the actual date of payment of the Principal;

3. Upon payment of all sums of money due under Clause 2 above and all other sums due under this agreement the Council shall grant to the Tenant-Purchaser and the Tenant-Purchaser shall accept a lease of the Premises in the form annexed hereto and thereon marked "A" or to the like effect. The Council reserves unto itself the right to vary or modify such form as may be required by law.

4. The Tenant-Purchaser having been afforded an opportunity of examining the Premises (as Tenant-Purchaser hereby admits) shall be deemed to have full notice and knowledge of the nature and extent of the same. At such time as the Tenant-Purchaser enters into possession of the Premises and has received a copy of the survey plan, or as soon thereafter as possible, he shall be required to sign a beacon indemnity certificate.

5. As soon as the Tenant-Purchaser shall be let into possession of the Premises he shall thereafter be responsible for and shall pay and discharge all rates taxes ground rent (if any) development charges (if any) and all other charges assessments expenses and outgoings as required by this Agreement or by law in respect of the Premises. Upon any default by the Tenant-Purchaser in discharging any such outgoings after receiving thirty days prior notice so to do the Council may discharge them and add all amounts so expended to the purchase price and/or recover the same as a debt due from the Tenant-Purchaser.

6. Until the grant of the Lease of the Premises in accordance with Clause 3 hereof has been completed the Tenant-Purchaser hereby covenants and agrees with the Council as follows:—

(a) To reside in the Premises;

(b) During the first five years of this Agreement not to sublet the premises or any part thereof or assign his rights under this agreement unless:

(i) he shall move his residence from the City of Nairobi; or

(ii) for any other reason he shall leave the City of Nairobi for a period exceeding one year; or

(iii) the Council shall approve the subletting or assignment.

(c) Subject to sub-clause (b) above the Tenant-Purchaser may assign his rights in and obligations under this Agreement at any time to any person upon fulfilling the following conditions:—

(i) the successor Tenant-Purchaser is eligible for house allocation in the scheme in accordance with established standards;

(ii) the form of transfer is approved by the Council and the transfer is registered according to law. The Council will advise both contracting parties of their rights and obligations upon assignment and will assist in the transfer of the Agreement. The Council will also advise the contracting parties of the portion of the purchase price that has been paid upto and including the date of assignment but will not consider the price paid by the succeeding Tenant-Purchaser to the assigning Tenant-Purchaser. Any gains or losses upon such transfer above or below the total of the sale payments made shall be for the benefit or to the detriment of the assigning Tenant-Purchaser.

(d) That at all times during the continuance of this Agreement the Council may in its own or some other agency and at the expense of the Tenant-Purchaser insure and keep insured the Premises in such amounts in such names and with such insurers as the Council may from time to time select against loss or damage by fire and against such other risks as the Council may from time to time think expedient. The amount of the annual premium and the expenses incidental thereto shall be paid by the Tenant-Purchaser to the Council on demand. In the case of partial or total damage of the Premises insured for the duration of the present contract all funds received from the insurance company shall be used as follows:—

(i) Partial Damage — The compensation shall of a necessity be used for the repairs required; any funds in excess of the amount required for such repairs shall be remitted to the Tenant-Purchaser; monthly payments shall be suspended as long as the Premises are uninhabitable;

(ii) Total Damage — In keeping with this Agreement the compensation shall be used for the construction of a new house or paid to the Council in or towards discharge of the Tenant-Purchaser's obligation under this Agreement as determined by the Council. In the latter case any funds in excess of the amount required to discharge the Tenant-Purchaser's obligation shall be remitted to the Tenant-Purchaser. Monthly payments shall be suspended until the date of taking possession of the reconstructed property at which time the present Agreement shall be resumed.

(e) At all times during the continuance of this Agreement to maintain the Premises in good tenable and decorative repair and condition and to permit the Council or its duly authorised representatives or agents with or without workmen and appliances at any convenient hours in the daytime and after giving reasonable notice thereof to enter upon and view the condition of the premi-

ses and to give or leave on the Premises notice in writing to the Tenant-Purchaser of all defects and wants of reparation then and there found which the Tenant-Purchaser shall be liable to make good. If the Tenant-Purchaser shall not within the time specified (not less than thirty days) in every such notice as aforesaid do all such repairs then and in every such case the Council shall be at liberty to enter upon the Premises and execute such repairs and the cost thereof may be added to the Purchase price and/or shall be a debt due from the Tenant-Purchaser to the Council and be forthwith recoverable by action.

(f) To paint with two coats of good oil paint or paint of suitable quality in a workmanlike manner to the satisfaction of the Council all the wood metal work and other parts of the Premises heretofore or usually painted as to external work in every third year and as to internal work in every fifth year of this Agreement (and in each case the painting to be done in the last year as well) the time in each case being computed from the date hereof and on the occasion of every external painting to grain varnish and colour the external parts of the Premises usually so dealt with and on the occasion of every external painting to grain varnish distemper wash stopwhiten and colour all such parts as are usually so dealt with.

(g) Not without the previous consent in writing of the Council to erect or permit or suffer to be erected on or about the Premises or any part thereof any new buildings fences or erections of any nature whatsoever and not to make nor allow to be made any alterations or additions to the Premises or to any buildings fences or erections erected unless such consent as aforesaid has been obtained.

(h) To pay all stamp duty and other charges and fees (including survey fees) which become payable in respect of this Agreement and the Counterpart thereof and of the Lease and Counterpart of the Premises to the Tenant-Purchaser.

7. The Premises are subject to the exceptions reservations covenants conditions and stipulations contained or referred to in the form of Lease annexed hereto and the Tenant-Purchaser shall observe and perform the same and indemnify the Council against any breach non-observance or non-performance thereof and against all actions proceedings claims and demands in respect thereof as if the said Lease had already been executed. Further in the case of the one and two roomed premises the Tenant-Purchaser hereby agrees to erect or construct at his own expense, two and one additional rooms respectively in accordance with the approved plan for the whole unit. In particular any development shall be subject to Clause 4 of the form of Lease marked "A" and annexed hereto.

8. In the event of the tenant Purchaser failing to perform and observe any of afore mentioned covenants and conditions on his part to be performed and observed or failing to make any or all the payments hereinbefore provided then instead of or in addition to the exercise of any other available remedy the Council may by not less than Thirty day's notice in writing determine this Agreement and resume possession of the Premises hereby agreed to be demised and the Tenant-Purchaser shall give up possession on the expiration of such notice. The Council may then either:-

- (i) sell or lease the Premises free from any right or interest of the Tenant-Purchaser therein; or
- (ii) maintain possession and assume the management thereof without being liable for any loss occasioned thereby. ALL moneys so recovered thereby shall be applied by the Council towards payment of the purchase price accrued interest and all other moneys due under this Agreement as though the same had continued in force.

PROVIDED THAT:

(a) if the sum so recovered under (i) above shall be in excess of the balance of the purchase price accrued interest and all other moneys and costs due as aforesaid such excess shall be repaid to the Tenant-Purchaser;

(b) if the sum so recovered as aforesaid shall be less than the balance of the purchase price accrued interest and all other moneys and costs due as aforesaid such balance shall be forthwith paid by the Tenant-Purchaser and be recoverable by action.

9. Any action taken by the Council under Clause 8 of this Agreement shall be without prejudice to any right of action or claim the Council may have against the Tenant-Purchaser arising out of any antecedent breach of any covenant or condition hereunder.

IN WITNESS WHEREOF the Council has caused its Common Seal to hereunto affixed and the Tenant-Purchaser has hereunto set his hand the day and year first above writtten.

The COMMON SEAL of THE CITY COUNCIL  
OF NAIROBI was hereunto affixed in the  
presence of:-

MAYOR

TOWN CLERK

SIGNED by the said.

in the presence of:-

DATED \_\_\_\_\_ day of \_\_\_\_\_ 197

**UMOJA ESTATE**

**TENANT PURCHASE AGREEMENT**

**BETWEEN**

**NAIROBI CITY COUNCIL**

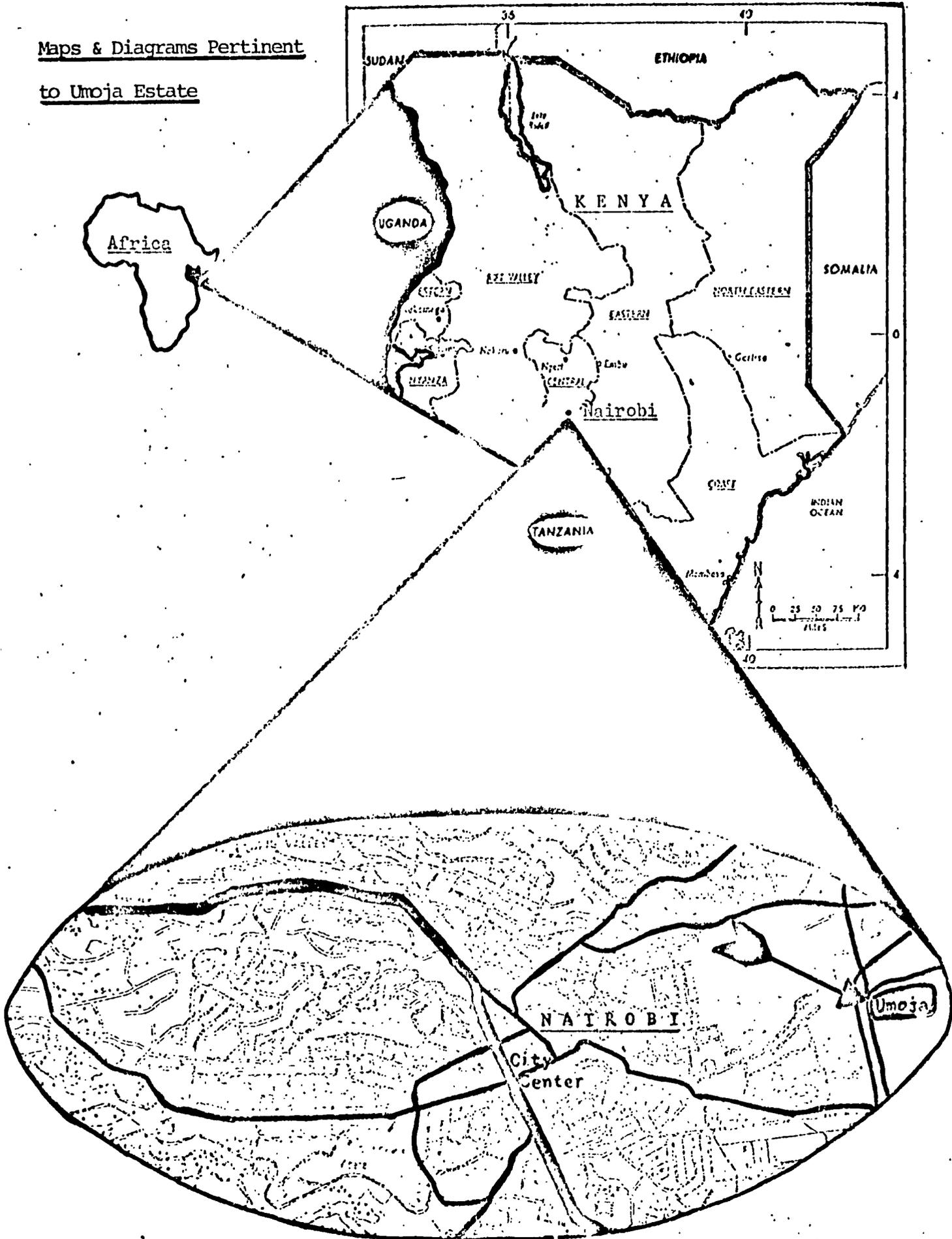
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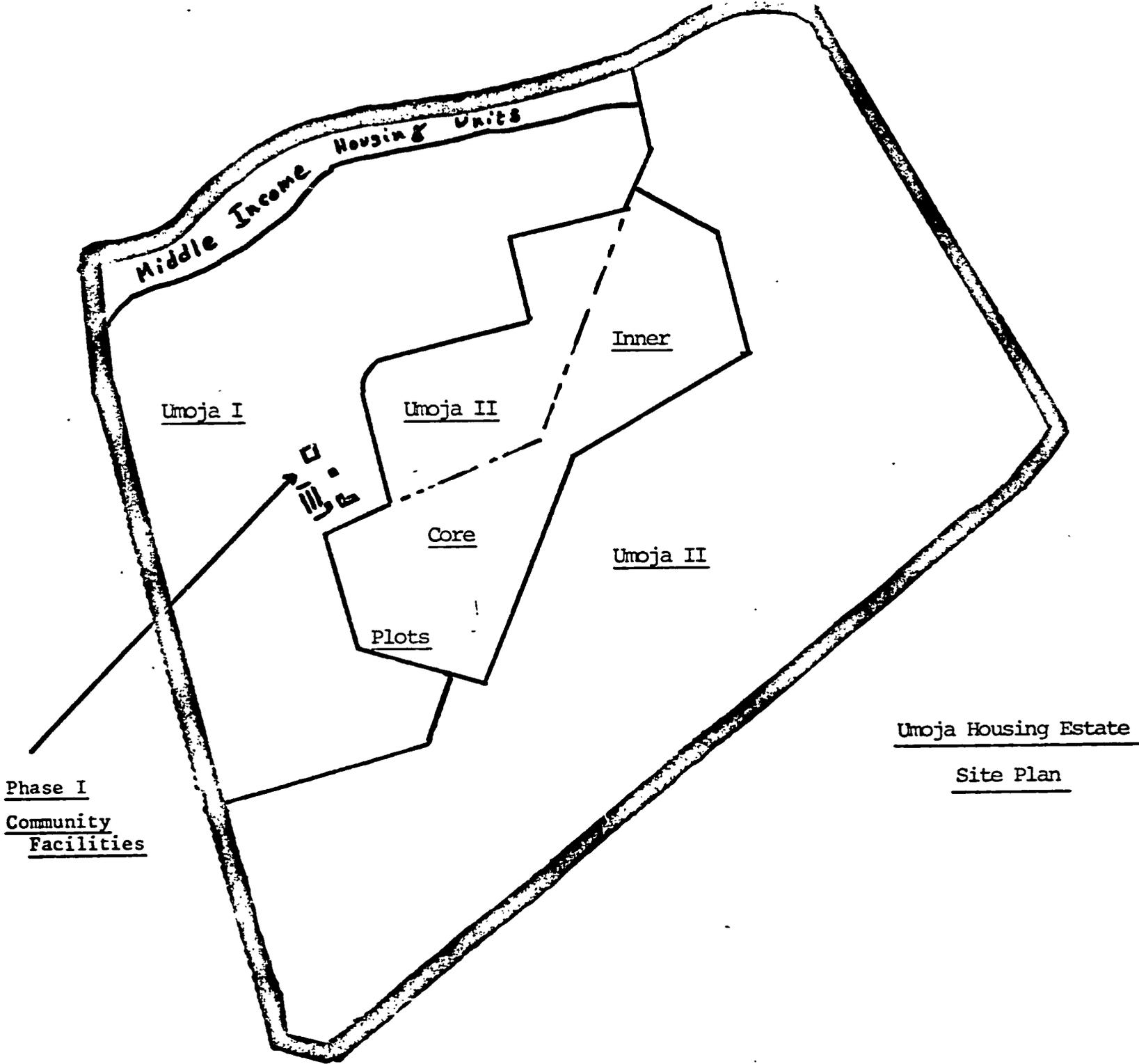
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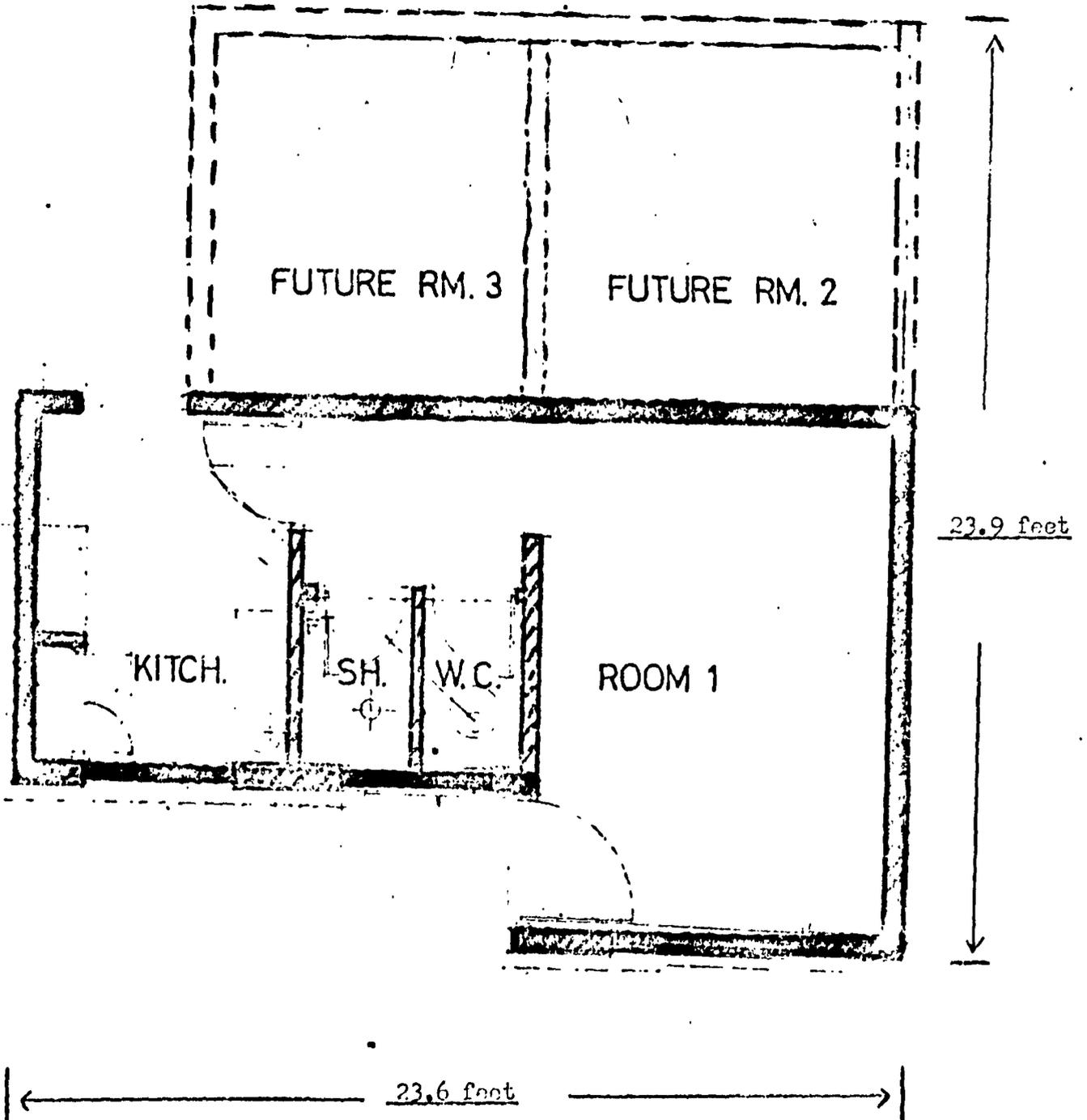
**HOUSE NO.**

Drawn by:  
Advocate  
City Hall,  
NAIROBI.

Maps & Diagrams Pertinent  
to Umoja Estate







The Basic Umoja "Core" Plan with Provision for Expansion

LIST OF REPORT RECOMMENDATIONSPage No.Recommendation No. 1

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that AID cannot execute a contract on guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until:

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(a) Umoja homebuyer accounts have been brought up to date, audited, and a comprehensive analysis of delinquency made to the satisfaction of RHUDO/E&SA or its designee(s);

(b) a decentralized collection facility has been established and operating at the Umoja project site for a reasonable period of time;

(c) an accounting system, including at least partial, if not total, mechanization has been introduced and is operating at all collection points used by Umoja homebuyers; and

(d) procedures have been developed and placed into operation for a reasonable period of time to pursue delinquent Umoja homebuyers under the terms and conditions of their Tenant Purchase Agreements.

Recommendation No. 2

11

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that in their opinion and in the opinion of AAG/EAFR

(a) sufficient provision exists in the Umoja Tenant Purchase Agreement to support charging penalty interest on late loan payments made by homebuyers, and that

(b) AID will not execute a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until collections of payments overdue more than two months include penalty interest charges in an amount at least equal to the cost of capital to the Umoja Project Unit.

Page No.

Recommendation No. 3

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise the NCC that AID cannot execute a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II until the NCC, using its own resources, determines which units at Umoja are not occupied by the original allottees, and (b) applies the sanctions provided in the Tenant Purchase Agreement to eliminate subletting entire units.

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Recommendation No. 4

RHUDO/E&SA, in conjunction with USAID/Kenya, include among the preconditions to the disbursement of any construction funds under 615-HG-005 for Umoja II, amendments to the Umoja Tenant Purchase Agreement to provide for (a) forfeiture by the original allottees of all monies paid in respect of amortization of their loans (including downpayments and monthly home loan payments) in such cases where allottees are found not to reside in their units (without having obtained prior NCC approval in writing for subletting same), (b) elimination of the ban on partial subletting, and (c) elimination of the 5-year limit on subletting entire units.

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Recommendation No. 5

RHUDO/E&SA, in conjunction with USAID/Kenya, ascertain the availability of "rollover" funds generated from the construction and sale of Umoja I for the purposes of project clean-up and inspection of unit interiors.

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Recommendation No. 6

RHUDO/E&SA, in conjunction with USAID/Kenya, formally bring Umoja Estate maintenance deficiencies to the attention of the Nairobi City Council and advise the NCC that AID cannot execute a contract of guaranty with

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Page No.

an eligible U.S. investor in respect of a loan for Umoja II until the NCC takes action to clean up and maintain the developed public areas at Umoja Estate.

Recommendation No. 7

RHUDO/E&SA, in conjunction with USAID/Kenya, include in the 615-HG-005 loan (Umoja II) Implementation Agreement a covenant whereby Nairobi City Council expressly undertakes to provide all necessary public services and estate management functions to the entire Umoja Estate from its general funds, once the project has been completed to AID's satisfaction.

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Recommendation No. 8

RHUDO/E&SA, in conjunction with USAID/Kenya, formally request the NCC to verify the status of Umoja Tenant Purchase Agreement recordation and take such action as they deem necessary to expedite the recordation process.

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Recommendation No. 9

RHUDO/E&SA, in conjunction with USAID/Kenya, formally advise Nairobi City Council that, prior to AID's executing a contract of guaranty with an eligible U.S. investor in respect of a loan to finance Umoja II:

28

(a) NCC shall provide such evidence as RHUDO/E&SA and USAID/Kenya shall deem satisfactory to ensure that all plots and/or units located within the boundaries of Umoja Estate have been allocated or reallocated in a manner which (i) is consistent with NCC's published eligibility criteria for such plots and/or units, and (ii) has been given adequate publicity in the local press; and

(b) Umoja's administrative and fiscal problems, which are the subject of Recommendation Nos. 1, 2, 3, 5, and 6 of this report, be resolved to AID's satisfaction within a reasonable period of time, or RHUDO/E&SA and USAID/Kenya will have no alternative but to request AID/Washington to reconsider its \$17 million housing guaranty loan authorization made in September 1979 to undertake Umoja II (615-HG-005).

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