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FINAL EVALUATION
A.I.D. KENYA PRIVATE SECTOR
COOPERATIVE HOUSING FINANCE
PROJECT 615-0225

Barbara DeGroot

Submitted to:

**The Regional Housing and Urban
Development Office for Eastern
and Southern Africa (RHUDO/ESA)**

and

USAID/Kenya

January 1992

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ABBREVIATIONS AND ACRONYMS

A.I.D.	U.S. Agency for International Development
COTU	Central Organization of Trade Unions
CHMP	Community Housing Mortgage Program
GoK	Government of Kenya
HFCK	Housing Finance Company of Kenya
HG	A.I.D. Housing Guaranty loan project
MoCD	Ministry of Cooperative Development
MOWHPP	Ministry of Works, Housing, and Physical Planning
NACHU	National Cooperative Housing Union of Kenya
NCC	Nairobi City Commission
NHC	National Housing Corporation
NSSF	National Social Security Fund
PID	Project Identification Document
PP	Project Paper
RHUDO/ESA	A.I.D. Regional Housing and Urban Development Office for Eastern and Southern Africa
UNCHS	United Nations Center for Human Settlements
USAID/Kenya	A.I.D. resident Mission in Kenya

CURRENCY EQUIVALENTS (December, 1991)

Currency Unit	=	Kenyan Shilling
KSh. 1	=	US\$ 0.035
US\$ 1	=	KShs. 28.4

PROJECT IDENTIFICATION DATA SHEET

Country: Kenya
Project Title: Private Sector Cooperative
Housing Finance
Project Number: 615-0225

Project Dates

Project Authorization: December 21, 1983
Project Agreement: September 21, 1984
Project Activity Completion Date:
(Original) August 31, 1988
(Amended) August 31, 1991

<u>Project Funds Obligated (US\$)</u>	<u>Planned</u>	<u>Actual</u>
A.I.D. Bilateral Funding (Grant)	1,120,000	900,000
Other Major Donors	---	---
Host Country Counterpart Funds (US\$ Equivalent)	<u>822,000</u>	<u>3,050,000</u>
TOTAL	1,942,000	3,950,000

Mode of Implementation

A.I.D. direct contracts were used for procurement of technical assistance, training, and commodities under this project. Various contractors were used.

Project Designers

The Government of Kenya, USAID/Kenya, and RHUDO/ESA.

Responsible Mission Officials

Mission Directors: 1983-84, Allison Herrick; 1984-86, Charles Gladson; 1986-90, Steve Sinding; and 1990-91, John Westley.
Project Officers: 1983-84, Raj Chanda; 1984-88, Steve Giddings; 1988-91, Joel Kolker.

Previous Evaluations

Interim evaluation of A.I.D. Project 615-0225 assistance to the National Cooperative Housing Union (NACHU) was undertaken on an in-house basis by RHUDO/ESA in August, 1989.

**Kenya Private Sector Cooperative Housing
Finance Grant Project 615-0225**

FINAL PROJECT EVALUATION

EXECUTIVE SUMMARY

The project was one of two interrelated projects planned under the \$21.12 million Kenya Private Sector Housing Program. The overall goal of this program was to improve the quality of life of lower income households through the promotion of user-financed social services. The program purpose was to enhance the Kenyan private sector's capacity to plan, develop, and finance housing affordable to low income households. Within the framework of this larger program, Grant Project 615-0225 was intended to provide technical assistance, training, and commodity support to the National Cooperative Housing Union (NACHU), the apex organization for housing cooperatives in Kenya, and to the Kenyan housing finance system. This assistance was expected to complement \$20 million in planned capital financing assistance under companion A.I.D. Housing Guaranty (HG) loan project 615-HG-007 for mortgage financing of privately-developed low cost housing.

The project, which was managed by the A.I.D. Regional Housing and Urban Development Office for Eastern and Southern Africa (RHUDO/ESA), consisted of a \$1.12 million A.I.D. grant to the GoK, of which \$900,000 was ultimately obligated by project completion in mid-1991. The project required seven years to implement, rather than the four years originally envisaged. Delays were generally not attributable to internal project difficulties, but rather to a deliberate A.I.D. decision to slow the pace of project implementation pending the conclusion of loan negotiations for the related HG-007 loan project. However, the loan project did not move forward to implementation during the life of the grant project and was deauthorized shortly thereafter.

The strong association between the grant project and the unimplemented loan led to a perception among some participants of limited project impact. The project evaluation does not draw the same conclusion. To a large extent and under difficult circumstances, the grant project appears to have addressed the objectives originally defined for it, as follows:

- Project-financed technical assistance, training, and commodity support directly contributed to a strengthening of NACHU as a private technical services organization for the Kenyan housing cooperative system.
- NACHU was technically assisted to plan 10 cooperative housing projects to benefit 2,962 low income households.

Direct assistance to NACHU in the areas of actual contracting and implementation of housing projects was not provided due to the failure of the HG-007 loan to materialize as a source of requisite capital financing. However, NACHU has since gone on to contract five housing projects benefitting 474 households with construction financing from other sources, thus approximating production targets defined for the HG-007 project.

- As a result of the project, significant resources were mobilized for mortgage lending to low income households. Technical assistance provided through the project directly led to the establishment of a new, locally-funded program for issuance of group mortgages to low income communities through the private sector Kenya Cooperative Bank with \$ 1.96 million (KShs. 55.6 million) in initial funding. Cooperative housing projects planned and implemented through NACHU will be among the first beneficiaries of this program. The grant project had a less direct impact on the mortgage lending practices of more traditionally defined Kenyan housing finance institutions.

Several key lessons emerged in the project evaluation which should assist in improving the design and implementation of similar technical assistance and training projects in the future:

- The project design failed to anticipate fully the complexities associated with a unified housing program involving dual grant and loan projects. Implementation of the grant project was handicapped by the failure of the project design to distinguish carefully between its expected achievements and those of the related HG-007 loan project, the latter of which did not move forward to implementation.
- Care must be taken to distinguish between need and demand for technical assistance services. While there was a clear social need for expanded mortgage lending to low income households in Kenya, the housing finance institutions originally targeted for technical assistance in this area were unwilling to accept grant project assistance to modify their mortgage lending practices in the absence of capital financing assistance planned under the related HG-007 loan project.
- In "software" projects involving technical assistance and training, clear and precise benchmarks are required to effectively channel progress toward project objectives. In the absence of such clear targets, RHUDO/ESA had little to guide it during the project implementation period beyond the rather broad objectives of strengthening NACHU and increasing mortgage lending to low income households.
- Although it may seem obvious, it is difficult to gauge the value of training programs without feedback from the persons

trained. RHUDO/ESA lost the opportunity to learn from the project's training component by apparently failing to build such a data collection effort into the project monitoring process.

- Greater use of institutional contractors may be an appropriate strategy for RHUDO/ESA to consider in this day of diminishing resources and staff. The hidden costs to RHUDO/ESA of the labor-intensive contracting approach used on this project appear to have been significant.

The evaluation goes on to recommend several minor adjustments to RHUDO/ESA's ongoing activities in support of the Kenyan private housing sector, taking into consideration current sector needs, changes in RHUDO/ESA's resource base, and evolving USAID/Kenya development strategies. These include suggestions for a tighter focus on support for cooperative housing sector delivery and finance so as to consolidate earlier RHUDO/ESA gains in these areas, limited use of RHUDO/ESA resources for policy discussion and research regarding informal sector housing issues, and exploration of the potential for RHUDO/USAID collaboration in the field of privatization.

**Kenya Private Sector Cooperative Housing
Finance Grant Project 615-0225**

FINAL PROJECT EVALUATION

I. INTRODUCTION

1.1 Purpose and Scope

This report presents the findings of a final evaluation of the A.I.D. Private Sector Cooperative Housing Finance Grant Project 615-0225 which was implemented between 1983 and mid-1991. The report was commissioned by the A.I.D. Regional Housing and Urban Development Office for Eastern and Southern Africa (RHUDO/ESA), which designed the project and was responsible for managing its implementation, and USAID/Kenya, which provided project funding and general policy guidance.

The terms of reference prepared by RHUDO/ESA for this report¹ outlined three major objectives:

- To review all project components and assess their success in strengthening the private sector's role in the production of low cost shelter.
- To examine the evolving roles of key project beneficiaries -- including the National Cooperative Housing Union (NACHU), the housing finance sector, other elements of the formal and informal private sectors, and the Government of Kenya (GoK) -- as providers of low cost shelter during the life of the project.
- To recommend future assistance strategies to enhance shelter delivery and finance by the Kenyan private sector.

1.2 Methods

Fieldwork for this report was carried out in Nairobi during the period September 30 through November 15, 1991. Report findings are based largely on information obtained from project records of RHUDO/ESA and NACHU, interviews conducted with representatives of organizations participating in the project, and an August, 1989 interim evaluation of A.I.D. project assistance to NACHU. In addition, all available reports generated by consultants under

¹Refer to Appendix A: Terms of Reference.

the technical assistance components of the project were reviewed.²

A preliminary draft of this report was prepared in mid-November of 1991. Comments and suggestions provided by staff members of RHUDO/ESA, USAID/Kenya, and NACHU were incorporated into the final draft report which was completed in January of 1992.

One important factor influencing the scope and content of this evaluation should be noted. A single Project Paper -- A.I.D.'s mechanism for defining project objectives, content, and expected results -- was prepared for both Grant Project 615-0225 and Housing Guaranty (HG) Loan Project 615-HG-007. Because the grant project was intended to play a supportive role vis-a-vis the loan project, rather than to be a freestanding activity, its expected achievements and the benchmarks for gauging its success were not precisely defined at the time of program design. By necessity, then, this evaluation examines in a broader way than might be preferred the contribution of the grant project to strengthening NACHU as a provider of low cost housing and the Kenyan housing finance system as a source of mortgages for low income households.

1.3 Report Structure

This report was prepared in six sections. Section II provides an overview of the project's antecedents, defined objectives, and expected achievements. Section III defines and assesses the actual results of the project as implemented. Section VI explores the performance of the major project participants. Section V outlines the key findings of the project evaluation, including the extent to which the project met its stated objectives and the lessons learned through the implementation process. Finally, Section VI recommends potential avenues of future assistance to the Kenyan private sector housing system.

II. PROJECT IDENTIFICATION AND DESIGN

2.1 Conditions Leading to the Project

The project was set against a backdrop in the early 1980s of rapid urbanization, severe deficiencies in urban service provision, marked inefficiencies in the public housing delivery process, and negligible involvement of the formal private sector in the development or financing of low cost housing. Largely as a result of these factors, the informal sector had emerged as a primary means by which Kenya's burgeoning low income urban population met, however inadequately, its shelter needs.

²Refer to Appendix B: Documents Reviewed.

Increasing demand for urban services and low cost housing was occurring, however, at a time when the managerial and financial capacity of the Government of Kenya (GoK) to respond was severely constrained. The rapid expansion of Kenya's economy characteristic of the 1960s through the late 1970s had, by the early 1980s, given way to declining GDP growth rates. With limited resources at its disposal and competing demands for their use, the GoK began to look to the private sector to play a larger role in the delivery of essential social services, including housing.

USAID/Kenya's development strategy at the time of project inception, theretofore largely oriented to public sector assistance projects, sought to support this budding GoK policy shift. A number of new projects were introduced in the early 1980s which financed private sector initiatives in the social services fields of health, water, nutrition, and housing. The Kenya Private Sector Housing Program was developed by USAID/Kenya in 1983 as its chief mechanism to support greater private sector involvement in the planning, delivery, and financing of low-cost housing.

Two interrelated housing projects were authorized under this program:

- The \$20 million Private Sector Housing Loan Project 615-HG-007 in September of 1983.
- The \$1.12 million Private Sector Cooperative Housing Finance Grant Project 615-0225 in December of 1983.

In addition, an associated project -- the \$10 million Kenya Credit Union and Cooperative Housing Loan Project 615-HG-008 -- was subsequently approved by A.I.D. in 1987 under the authorization of the Worldwide Private Sector Housing Program.

Loan project HG-007 was intended to support mortgage financing of approximately 3,000 privately developed low cost housing units and was the subject of protracted and ultimately unsuccessful negotiations with the GoK. It was deauthorized on September 5, 1991. Loan project HG-008 was conceived as a follow-on project to HG-007 and was expected to support mortgage financing of low cost housing by non-traditional private sponsors including credit unions and cooperatives. The authorization for the HG-008 project remains in effect; however, loan negotiation has not yet commenced.

Grant Project 615-0225 represented the sixth in a series of Kenyan shelter projects supported by A.I.D.. Previous assistance to the sector had entailed a total of \$50 million in loan funding under the A.I.D. Housing Guaranty Program for low cost public housing and urban services projects developed by central and local government agencies.

2.2 Identification, Preparation, and Approval

The first mention of this project in A.I.D. files occurred in 1982. The Project Identification Document (PID), a preliminary proposal for project design, was subsequently prepared by RHUDO/ESA staff and consultants in May of 1983. The Project Paper (PP), intended to be a more detailed outline of the proposed project, was undertaken by RHUDO/ESA staff, consultants, and USAID/Kenya staff in July through September of 1983. Authorization of funding for the grant project by A.I.D./Washington took place on December 21, 1983.

2.3 Project Objectives

The stated goal of the projects planned under the Kenya Private Sector Housing Program was to improve the quality of life of lower income households through the promotion of user-financed social services. The overall program purpose was to enhance the private sector's capacity to plan, develop, and finance housing affordable to low income urban households.³

Within the framework of this larger program, the grant project was expected to complement the capital financing assistance for privately developed low cost housing to be provided through the HG-007 loan project by addressing institutional development objectives in three key areas:

- Strengthen NACHU's organizational abilities in the areas of overall program management and service delivery to member cooperatives.
- Technically assist NACHU to identify, design, and implement cooperative housing projects eligible for financing under the HG-007 loan project.
- Mobilize additional financial resources for mortgage lending to low income households.

By the completion of the project, it was expected that:

- A stronger NACHU/housing cooperative structure would have been developed.
- NACHU would have demonstrated the capacity to plan and contract cooperative housing projects benefitting approximately 500 households.
- Policies, procedures, and institutional capacity would have been developed to direct mortgage lending to lower income households.

³Refer to Appendix C: Project Design Summary.

- Studies of overall housing needs and the workings of the primary mortgage market system in Kenya would have been completed.

2.4 Project Description

The project was designed to provide technical assistance, training, and limited commodity assistance to NACHU and the Kenyan housing finance system over a four-year period. A total of \$1.12 million in A.I.D. grant funding was to be provided through the project, supplemented by the equivalent of \$822,000 in host country counterpart funding.

Specific project components were to include:⁴

(a) Long-Term Technical Assistance to NACHU

A.I.D. was to provide a total of approximately 71 person months of long-term advisory services to NACHU. A Cooperative Management Advisor (36 person months) was to assist NACHU to improve its overall organizational, administrative, and management practices. A Cooperative and Low Cost Housing Advisor (35 person months) was to assist NACHU to identify, package, design, contract, and implement low cost housing projects eligible for funding under the planned HG-007 loan project.

(b) Short-Term Technical Assistance to NACHU

A.I.D. was to provide a total of approximately 18 person months of short-term consulting services to NACHU. Potential areas of assistance, which were subject to the mutual agreement of USAID and NACHU, were to include: (i) training materials development, (ii) establishment of an appropriate NACHU fee structure, (iii) NACHU staff training, (iv) cost-effective house and site development designs, and (v) legal advice regarding the contracting of site development.

(c) Short-Term Technical Assistance to Housing Finance Institutions

A.I.D. was to provide approximately 10 person months of short-term consulting services to (i) prepare general studies of the Kenyan housing finance sector and (ii) provide more hands-on technical assistance to specific housing finance institutions expected to participate in the planned HG-007 loan project. This assistance was to be directed to mobilizing additional financial resources for mortgage lending to low income households and to increasing the efficiency of mortgage processing and portfolio management practices.

⁴Source: Grant Project 615-0225 Agreement.

(d) Short-Term Training

A.I.D. was to provide short-term international and local training to senior representatives of housing cooperative organizations, housing finance institutions, and relevant governmental agencies. Special emphasis was to be placed in the international training on exposure to US-based models for the effective operation of primary and secondary mortgage markets. In-country training was largely to support NACHU workshops for member housing cooperatives.

(e) Commodity Assistance

A.I.D. was to provide a limited amount of commodities to NACHU and housing finance institutions as required for effective implementation of this project and the planned HG-007 loan project. Commodity assistance to NACHU was to include the purchase of two vehicles, one micro-computer, and miscellaneous training equipment and supplies. Micro-computer equipment was also to be procured for housing finance institutions participating in the project.

NACHU, through the Ministry of Cooperative Development (MoCD), was to be the implementing agency for all technical assistance, training, and commodity assistance activities benefitting the housing cooperative system. Technical assistance and training provided to housing finance institutions and government officials was to be with the consent of the Ministry of Works, Housing, and Physical Planning.⁵ The Ministry of Finance was to have GoK approval authority over the use of all project funding.

III. PROJECT IMPLEMENTATION

3.1 Overview

3.1.1 Implementation Arrangements and Start-Up

In sharp contrast to previous and subsequent A.I.D.-sponsored housing projects in Kenya, including the related HG-007 and HG-008 loan projects, the commencement of the project occurred on schedule (nine months after the December 1983 project authorization). However, negotiations with the GoK in the interim period produced two noteworthy changes in the planned implementation arrangements for the project.

First, the decision was made to obligate all project funding through a Grant Project Agreement with the GoK rather than largely through a blanket Cooperative Agreement with a US-based

⁵Subsequently the Ministry of Lands and Housing.

institution, as originally envisaged. The Grant Agreement, which was executed in September 1984, provided for A.I.D. contracting of technical services required by the project with the concurrence of the GoK.

Second, the decision was made for A.I.D. to directly procure all goods and services associated with project assistance to NACHU -- the bulk of project funding -- on an incremental basis rather than through a single contract with an intermediary firm, as originally planned. This approach significantly increased RHUDO/ESA's management and administrative responsibilities for the extremely large number of contracting actions (approximately 100) which followed, each of which required separate GoK approval.

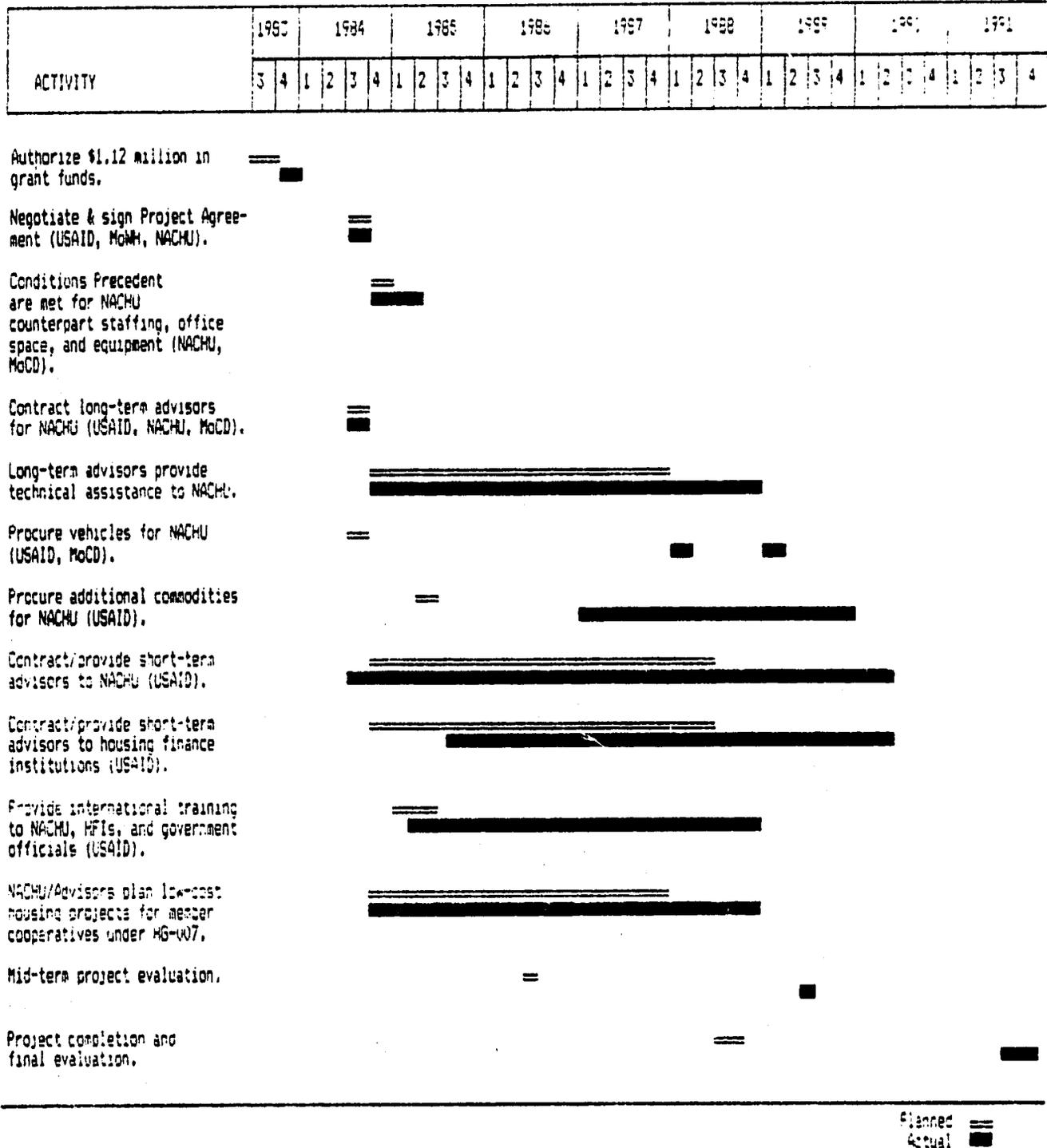
3.1.2 Implementation Schedule

The project required seven years to complete rather than the four years originally envisaged. As shown in Figure 1, with the exception of commodity support to NACHU, project activities largely began and proceeded on schedule during the first two years of the project. Subsequent delays were not, however, attributable to implementation difficulties experienced by the grant project per se, but rather reflected a deliberate RHUDO/ESA decision to slow the pace of grant expenditures for reasons relating to the companion HG-007 loan project.

A central assumption made in the design of the grant and the HG-007 loan project was that negotiation and signing of the HG-007 loan documents would be complete by late 1984, one year after the loan project's authorization. The start of the grant project was timed to coincide with this expected event, and its implementation commenced accordingly in September of 1984. However, the HG-007 loan negotiation was unusually difficult and was not successfully completed on schedule or subsequently. It remained tantalizingly close, repeatedly appearing to be just on the verge of being signed throughout much of the seven-year life of the grant project. Under these circumstances, RHUDO/ESA's strategy for the grant project was to keep it active, but not so active that grant funds were fully expended before loan project implementation began.

The original scheduling assumption made in the design of the grant and loan projects -- that they would coincide -- appears to have been unrealistic even under the circumstances prevailing at the time. When these projects were designed, loan negotiations were still underway on two other, unrelated Kenya HG loan projects four and five years after their authorization. Furthermore, interest rates applicable to housing guaranty loans were at near record high levels. These facts might have inspired a more cautious approach to grant project scheduling.

FIGURE 1: PLANNED¹ AND ACTUAL² PROJECT 615-02205 IMPLEMENTATION SCHEDULE BY CALENDAR YEAR



Sources: ¹ Project Paper and Grant Project Agreement.
² RHUDD/ESA files.

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3.1.3 Cost and Cost Allocation

Of the \$1.12 million in A.I.D. grant funds authorized for the project, \$900,000 was obligated through the Grant Agreement, of which \$879,765 was ultimately expended for technical assistance, training, and commodity assistance under the project. The local currency equivalent of approximately \$3.05 million in host country counterpart funds was provided to the project, well in excess of the \$822,000 anticipated at the time of project design. Host country financial support for the project, which was in the form of grant assistance to NACHU (\$1.09 million) and capital funding for mortgage lending to low income households through the privately-owned Cooperative Bank of Kenya (\$1.96 million), must be considered one of the project's several key successes.

Table 1 provides a summary of financial aspects of the project as planned and as implemented. As shown, actual project expenditures for the various project components diverged significantly from planned levels. These changes and other characteristics of the project implementation process are reviewed in the balance of this section of the report.

3.2 Technical Assistance to NACHU

An estimated 111 person months of project-financed technical services were provided to NACHU over the life of the project, considerably above the 89 person months of assistance originally anticipated.⁶ Actual expenditures for this project component, at \$529,027, were slightly below planned levels.

As shown in Table 2, the technical assistance provided to NACHU was, to a larger extent than originally planned, in the form of the services of long-term advisors. These services were provided in three ways: through (a) a Cooperative and Low Cost Housing Advisor (50 months), (b) a Cooperative Management Advisor (37 months), and (c) the part-time assistance of RHUDO/ESA staff advisors (14 estimated months). In addition, approximately 10 months of short-term advisory services were provided to NACHU through the US-based Cooperative Housing Foundation and various other consultants, primarily for training, management, and legal assistance.

Through this project component, NACHU was assisted to:

- Identify and prepare detailed designs for 10 planned housing projects to benefit 2,962 low income households at a total estimated cost of \$17 million.

⁶In addition, approximately 6 person months of technical assistance to NACHU was provided by RHUDO staff advisors and financed by RHUDO during the 1989-91 period.

**TABLE 1: PLANNED¹ AND ACTUAL² PROJECT EXPENDITURES
BY CATEGORY AND SOURCE OF FUNDING**

EXPENSE CATEGORY	PLANNED		ACTUAL		CHANGE (%)
	A.I.D.(\$)	LOCAL (\$)	A.I.D.(\$)	LOCAL (\$)	
A. <u>Technical Assistance to NACHU</u>					
Long-Term Advisors	320,000		469,999		+23.7
Short-Term Advisors	<u>210,000</u>		<u>59,028</u>		-71.9
	590,000		529,027		-10.3
B. <u>Technical Assistance to Housing Finance Institutions</u>					
Short-Term Advisors	120,000		107,918		-10.1
C. <u>International Training Assistance</u>					
	210,000		199,610		- 4.9
D. <u>Commodity Assistance</u>					
Vehicles	15,000		13,449		-10.3
Training Equip. & Supplies	30,000		22,500		-25.0
Micro-Computer Equipment	25,000		7,261		-71.0
Miscellaneous	<u>30,000</u>		<u>43,210</u>		-56.8
	100,000				
E. <u>Program Development & Support</u>					
		822,000		3,050,000 ³	+371.0
F. <u>Contingencies</u>					
	100,000				
T O T A L	1,120,000		879,765		-21.4

Sources:

¹ A.I.D. Grant Project 615-0225 Agreement.

² RHUDD/ESA financial records.

³ Includes the local currency equivalent of \$1.09 million in GoK grant support for NACHU and \$1.96 million for capitalization of the Community Housing Mortgage Program (CHMP).

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TABLE 2: PLANNED¹ AND ACTUAL² LEVEL OF EFFORT OF PROJECT-FINANCED CONTRACTORS

CATEGORY	PLANNED PERSON MONTHS	ACTUAL PERSON MONTHS	CHANGE (%)
<u>Technical Assistance to NACHU</u>			
Long-Term Advisors	71	101	+42.3
Short-Term Advisors	<u>18</u>	<u>10</u>	<u>-44.4</u>
	89	111	+24.7
<u>Technical Assistance to Housing Finance Institutions</u>			
Short-Term Advisors	10	9	-10.0
T O T A L	99	119	+20.2

Sources: ¹Grant Project 615-0225 Agreement.
²RHUDO/ESA files.

- Define and operationalize standard NACHU procedures for the selection, feasibility study, design, contracting of site works, inspection, and certification of housing projects and a fee structure for NACHU services to member cooperatives in these areas.
- Develop a range of expandable house design packages for use by member cooperatives.
- Legally restructure NACHU as the apex organization for housing cooperatives in Kenya and introduce improved policies and regulations to guide its relationship with its member cooperatives.
- Develop and operationalize a comprehensive training program by NACHU for member housing cooperatives.
- Establish, in 1990, a five-year organizational plan for the NACHU professional staff.

This and other assistance provided to NACHU through the grant clearly and directly contributed to an institutional strengthening of NACHU as an effective technical services organization for the Kenyan housing cooperative system, thus addressing one of the major objectives of the project. The NACHU General Manager has noted that technical assistance provided through the project was crucial to its organizational development over the past decade.⁷

Expected assistance to NACHU in the actual contracting and implementation of housing projects to be financed through the HG-007 loan project was, of course, not possible due to the failure of loan negotiations. The majority of the NACHU housing project designs technically assisted through the grant project remain on the shelf, awaiting construction financing. However, NACHU has gone on with funding from other sources to commence or complete construction of five housing projects benefitting 474 households, thus demonstrating a contracting capacity approximating that expected under the HG-007 loan project.

3.3 Technical Assistance to Housing Finance Institutions

An estimated 9 person months of short-term technical assistance to the Kenyan housing finance sector were delivered during the course of project implementation, closely approximating the 10 person month level of effort originally envisaged. Total project expenditures for this purpose were, at \$107,918, slightly less than had been anticipated in the project design.

⁷November 26, 1991 interview.

Initial technical services performed under this project component included the preparation of:

- A national housing needs assessment.
- A detailed study of the overall Kenyan housing finance system, the operations of the primary mortgage market, and the potential for creation of a secondary mortgage market.
- A study of informal housing finance mechanisms in Kenya.
- A study of the potential for mortgage financing through savings and credit cooperatives.
- Recommended strategies for mobilizing additional resources for the mortgage financing of low cost housing and proposed revisions to the GoK policy framework for this purpose.
- Detailed management assessments of housing finance institutions targeted for assistance under the HG-007 loan project.

Taken together, this technical assistance effort resulted in a comprehensive and well written body of literature consistent with expectations outlined in the project design: all types of planned studies were produced, methods to mobilize additional financial resources in the Kenyan housing finance system were identified, and strategies to enhance primary mortgage market operations were defined.

Following the preparation of the Kenyan housing finance system studies defined above, more hands-on technical assistance was to have been provided to housing finance institutions eligible for capital assistance under the HG-007 loan project. This was to have entailed assistance in the modification of their mortgage lending practices and procedures so as to begin to serve lower income households. However, the absence of expected capital financing under the HG-007 loan project paired with changing conditions in the Kenyan housing finance industry at the start of the project seriously affected initial implementation arrangements for technical assistance to the sector under this project component.

The project design had focused on five well established housing finance institutions which were viewed as both interested in and capable of increased mortgage lending to low income households. These institutions included the Housing Finance company of Kenya (HFCK), Savings and Loan Kenya Limited, Home Savings and Mortgages, the East Africa Building Society, and the Pioneer Building Society. As project implementation commenced, however, the GoK liberalized the regulatory framework for mortgage lending in Kenya, including the removal of restrictions to the establishment of non-bank financial institutions such as building societies and the relaxation of governmental oversight of the

housing finance sector. As a result of these factors, numerous new building societies were established in the early years of the project, leading at first to greater competition the Kenyan housing finance industry. In response to these changing industry conditions and toward the objective of supporting a more competitive mortgage lending environment, RHUDO/ESA initially sought to include these newly proliferating building societies as potential targets for both capital financing of low cost housing through the HG-007 loan project and technical assistance under the grant project. However, the rapid expansion of the housing finance industry was quickly followed by a contraction of the industry as many of the newly formed building societies were found to be poorly managed, were inadequately capitalized, were unable to develop viable depositor bases, and went out of business. With the industry in crisis, with planned capital financing under the HG-007 loan project unavailable, and with mortgage lending to low income households generally perceived to be a high risk enterprise, demand for technical assistance under this project component did not materialize as expected in the early years of the project.

Despite this earlier failure, subsequent project-financed technical assistance did ultimately succeed in addressing the key objective of this project component: the mobilization of additional resources for mortgage lending to low income households. As a direct result of hands-on technical assistance provided in 1990 which recommended strategies for the introduction of community-based mortgage lending in Kenya, an initial KShs. 55.6 million (\$1.96 million) revolving fund was established through the privately owned Cooperative Bank of Kenya to provide a new form of mortgage lending to low income households. This program will finance group, rather than individual, mortgages for low income households willing to organize themselves into cooperatives for slum upgrading or new housing development purposes and to assume part of the responsibility of collecting amortization payments from their members. NACHU housing projects will be among the first beneficiaries of this new program. Issuance of mortgages through the program for housing units developed by NACHU will allow NACHU to more quickly recover project construction costs and revolve such funds for other low cost housing projects.

3.4 Training

A total of \$199,610 was expended under the project for international and local training assistance to housing finance institutions, NACHU, and relevant government agencies, slightly less than the \$210,000 expected for this purpose during the project design period. Implementation of the training component was spread over a much longer period (four years) than had been originally envisaged (six months). In part, implementation delays were attributable to RHUDO/ESA's decision to defer expenditures under this project component pending the approval of

the related HG-007 loan project. However, it would appear that, in light of the financial scale of this project component and the labor-intensive contracting methods generally used by RHUDO/ESA, the original schedule envisaged would have been unrealistic under any circumstances.

An estimated total of 364 persons benefitted from short-term training opportunities financed under this project component, of which 49 received training outside of Kenya and the balance participated in local workshops. A large number of quite diverse training events was sponsored under this project component, a summary of which is shown in Table 3.

It is, unfortunately, difficult in this evaluation to objectively gauge the impact of the training provided through this project. The reasons are several. First, the project design did not provide benchmarks for the number of expected participants. A comparison of planned with actual project performance in this respect thus cannot be made. Second, project records provide little useful information on the content and training methodologies used in the course work offered. Third, the project files do not contain information on feedback, if any, obtained from participants on the quality of the training they received or their subsequent application of lessons learned. Finally, project records on the names and contact addresses of the persons who received training under this project component are not up-to-date or complete.

On the basis of discussions with merely a few of the persons who received training under this project component, however, the evaluator was able to draw two key impressions. First, the US-based, skill oriented training focusing on housing finance was generally useful and had some impact on the participants' professional development and their subsequent approach to work in Kenya. Second, NACHU considered project-funded training materials and workshops for its member cooperatives to have been an essential means of increasing contact and strengthening ties between these two levels of the Kenyan cooperative housing system.

Project records suggest that the purpose and content of the project's training program evolved somewhat during the project implementation period. While project training was originally intended to focus on exposure to models for the effective operation of primary and secondary mortgage markets and support for NACHU workshops for member housing cooperatives, approximately 25 percent of project training expenditures was directed to local and international training opportunities relating to more general shelter policy concerns. Introduction of such policy related training, which was not anticipated in the project design, was viewed by the RHUDO/ESA project managers as an important means of highlighting the need for increased low cost housing development and finance.

**TABLE 3: PROJECT-FINANCED
TRAINING ACTIVITIES**

TRAINING EVENT	YEAR	TYPE	NO. OF PARTICIPANTS SPONSORED
A. U.S.-Based Training			
Washington Policy Workshop	1988	Shelter Policy	4
Chicago Sr. Managers Workshop on Secondary Mortgage Markets	1985	Technical/Management Skills	10
Univ. of Penn. Housing Finance Course	1988	Technical/Management Skills	11
MIT/Harvard Infrastructure Course	1989	Technical/Management Skills	1
Shelter Course	1989	Technical Management Skills	2
			<u>28</u>
B. Other International Training			
10th Annual African Shelter Conf.	1986	Shelter Policy	20
Harare Strategic Planning Seminar on Deregulation of Building Societies	1988	Technical/Management Skills	1
			<u>21</u>
C. Local Training			
Nairobi Seminar on Secondary Mortgage Market Operations	1985	Policy/Management Skills	20
National Housing Policy Workshop	1986	Shelter Policy	40
Workshop on Low Cost Building Materials (NACHU)	1986	Technical Skills	25
Nairobi Workshop on Mortgage Lending Practices & Procedures	1987	Technical/Management Skills	30
Nairobi Workshop on Building and Infrastructure Standards	1987	Shelter Policy	50
National Housing Policy Workshop	1987	Shelter Policy	45
Informal Sector Housing Workshop	1988	Shelter Policy	35
NACHU Membership Training Workshop	1988	Org. Dev./Management Skills	30
Community Mortgage Lending Workshop	1990	Policy/Technical/Man. Skills	40
			<u>315</u>
T O T A L			364

Source: RHUDD/ESA Project Files.

BAW

3.5 Commodity Assistance

A total of \$43,210 in commodity assistance was actually provided during project implementation, significantly less than the \$100,000 originally expected for this project component. This shortfall is largely attributable to the decision made not to procure micro-computers for housing finance institutions expected to participate in the HG-007 loan project because the loan project was not implemented.

All commodity assistance to NACHU planned under the project was delivered, although on a much slower schedule than originally proposed. This assistance included two vehicles, two micro-computers, attendant computer software, and miscellaneous training equipment and supplies.⁸

In general, these commodities appear to have been both put to productive use and highly valued by NACHU. The vehicles facilitate regular NACHU contact with its member cooperatives, which are located throughout Kenya, and supervision of NACHU housing projects in the planning and construction phases. NACHU training materials procured under the project -- including audio-visual equipment and demonstration models for house/plot/site design -- greatly assist NACHU in the implementation of its general cooperative training program and in specific project planning activities in collaboration with member cooperatives. The micro-computers and related software expedite performance of NACHU responsibilities in the important areas of project planning, monitoring, bookkeeping, and financial analysis. However, it appears that NACHU is not fully using the graphics capabilities of these micro-computers to assist the preparation of architectural, site development, and other technical drawings. Additional NACHU staff training in these areas may be warranted.

IV. INSTITUTIONAL DEVELOPMENT AND PERFORMANCE

4.1 NACHU

NACHU was created in 1979 through the combined efforts of the Central Organization of Trade Unions (COTU) of Kenya and the MoCD in response to the GoK's call for a national technical services organization to assist primary housing cooperatives in the planning and implementation of low cost housing projects. At the time of project inception in 1983, NACHU was still a very germinal organization. It had 12 member housing cooperatives, retained a professional staff of two (a General Manager and a COTU representative), and had an appointed board heavily

⁸The costs of one vehicle (\$11,210) and one micro-computer and associated software (\$6,050) were charged to RHUDO's HUP/SDA budget, rather than to the 615-0225 project.

dominated by appointed representatives of GoK agencies and COTU. NACHU's operations, funded entirely through token grants from the GoK and the African/American Labor Center (through COTU) and technically assisted by the United Nations Center for Human Settlements (UNCHS), were almost exclusively directed to the organization of, rather than delivery of services to, new housing cooperatives.

In the seven years of the project, NACHU's institutional capacity expanded dramatically in terms of its range of services offered, housing production, organization and staffing, and financial resource base. The following outlines current strengths and weaknesses of NACHU's organizational development.

4.1.1 Range of Services

NACHU now offers a wide range of services to its member cooperatives, including: (a) organizational assistance in the formation, registration, and training of housing cooperatives; (b) planning and design services for cooperative housing projects; (c) intermediary assistance to cooperatives in acquiring land and financing for project development, identifying and contracting builders, and obtaining necessary approvals and clearances from government agencies, and (d) estate and financial management assistance to housing cooperatives.

NACHU has necessarily invested a large proportion of its resources and energies to date in the organization of housing cooperatives and provision of preliminary planning assistance to them, tasks which have been both very labor-intensive and non-remunerative. For the foreseeable future, however, NACHU will need to adopt a much more narrow focus on the critical, and fee-generating, tasks of design/redesign, contracting, and construction of housing projects for which land and construction financing are assured. NACHU realizes that such a shift will be required both to maintain organizational credibility and achieve greater financial self-sufficiency.

4.1.2 Housing Production

The expansion of NACHU's production capacity for low cost housing represented a principal project objective and, despite the disappointing failure of the HG-007 loan project to materialize as a source of mortgage financing, one of its primary achievements. At project inception, NACHU had no track record in this type of activity. By the end of the project in 1991, NACHU had commenced or completed construction of five housing projects benefitting an estimated 474 households. An additional 19 housing projects to benefit a further 4,547 households had been designed and were awaiting construction finance.

Ironically, the promise of mortgage financing for approximately 10 of NACHU's planned projects under the HG-007 loan project may have had a negative impact on NACHU's actual housing production levels. As previously noted, loan project funding was expected "any minute now" during much of the life of the grant project. Under such circumstances, NACHU was inspired to keep in a constant state of readiness for project implementation, rather than to pursue vigorously alternative funding sources. This was one of the more unfortunate side effects of planned A.I.D. assistance to NACHU through the HG-007 loan project. It was only in the later stages of the project that NACHU, with RHUDO/ESA's strong encouragement, seriously began to look elsewhere for project funding.

4.1.3 Financial Management

While inadequate access to both construction and mortgage take-out financing continues to be NACHU's chief problem as an organization, its overall financial position has improved steadily and significantly since project inception. In 1989, NACHU's capital reserves stood at KShs. 1.16 million, compared with a 1983 figure of KShs. 0.114 million. This represented a 918 percent increase since the start of the project.

More significantly, perhaps, NACHU has made steady progress toward greater financial self-sufficiency since project inception. Between 1983 and 1990, the proportion of NACHU's total income derived from donor (foreign and local) funding declined from 99 percent to 57 percent. Furthermore, the proportion of NACHU's income derived from professional and service fees charged to member cooperatives for project design and implementation services increased from 0 percent to 36 percent during the same period. On the basis of projects now in the pipeline, NACHU projects that its fee income will rise to 68 percent of its total income by 1993. Emphasis on rapid turnover of fee-generating housing projects will be essential to NACHU's long-term sustainability.

4.1.4 Organization and Staffing

NACHU has steadily consolidated its role as both the representative apex organization for the housing cooperative movement in Kenya and as a professional staff capable of providing specialized technical services to its member cooperatives. Since project inception, NACHU membership has increased from 12 to 80 primary housing cooperatives. NACHU has also been legally restructured so that the NACHU Board of Directors consists predominantly of elected cooperative society representatives, rather than the appointed GoK officials who previously controlled Board policy-setting and decision-making.

Recognizing the boom/bust nature of the housing development cycle, NACHU has wisely resisted the temptation to expand its staff beyond core levels. NACHU now has a permanent staff establishment of 18 (16 presently filled), of which 9 (7 presently filled) are professional positions (refer to Figure 2). Technical services in the fields of engineering and construction supervision are contracted on an as needed basis as projects come on stream.

As with many young organizations, NACHU is faced with the dual pressures of needing to keep staff costs within manageable levels while attracting and maintaining competent professionals. NACHU has seen a considerable amount of staff turnover in recent years and may now need to restructure its salary structure to remain competitive. In a recent study, Price Waterhouse Associates strongly urged the NACHU Board of Directors to prepare a personnel policy paper and revised terms of service for the NACHU professional staff.⁹

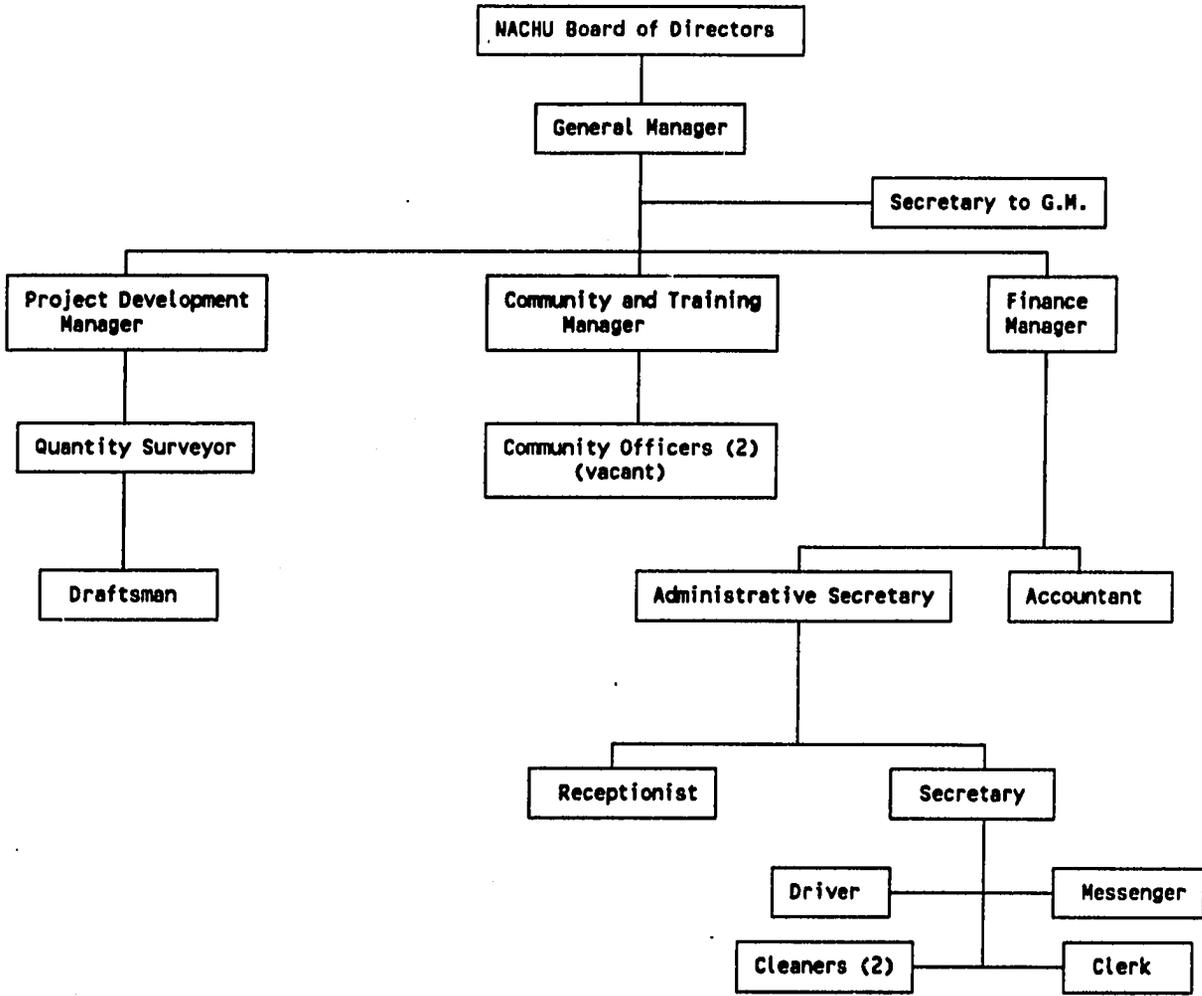
4.2 Housing Finance Institutions

The project did succeed in addressing the objective of mobilizing additional resources for mortgage lending to low income households. That it did so despite the absence of capital financing for this purpose planned under the HG-007 loan project must be counted as one of the project's key successes.

As noted in Section 3.3 of this report, the project was ultimately successful in introducing group mortgages into the Kenyan housing finance system and leveraging an initial total of KShs. 55.6 million in local resources for this purpose from the GoK budget (KShs. 9.4 million), the National Social Security Fund (KShs. 40 million), and the Cooperative Bank of Kenya (KShs. 6.2 million). The resultant Community Housing Mortgage Program, to be administered by the Cooperative Bank, has several features which auger well for a sustained increase in resources mobilized for low income housing. First, the group mortgage arrangement substantially reduces the administrative costs of serving low income households by allowing the institution to issue and manage a few high principal value loans, rather than numerous individual small mortgage accounts. Second, funding for this program was raised locally, and NSSF has expressed a tentative willingness to invest additional funds in this program in the future. Third, the implementing institution, the privately-owned Cooperative Bank, has a "stake" in better serving low income households in the cooperative sector. This institution is fully owned by approximately 1,400 Kenyan credit unions and other cooperative

⁹Price Waterhouse Associates, "Report to USAID on NACHU's Organization and Operations," Nairobi: Price Waterhouse for RHUDO/ESA, January 1991, p. ii.

**FIGURE 2: NACHU ORGANIZATIONAL STRUCTURE
DECEMBER, 1991**



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societies, including those in the housing field, and has the financial mandate and obligation to meet their credit needs.

As previously noted, the project had a less clear and direct impact on the balance of the Kenyan housing finance system. The major Kenyan housing finance institutions and building societies continue to direct the vast majority of their mortgage lending to upper and, to a lesser degree, middle income households. And the informal sector remains the primary means by which low income households acquire and finance affordable shelter. Estimates suggest that up to 80 percent of all new urban housing is provided through the informal sector.¹⁰

However, in spite of the above, the Housing Finance Company (HFCK), by far the largest specialized housing finance institution in Kenya, has shown an increased willingness to consider the needs of low income households in recent years and has begun to provide mortgage financing on a periodic, case-by-case basis for low cost housing projects sponsored by the GoK. RHUDO/ESA staff believe that the extensive policy dialogue pursued by A.I.D. under this project and by other international donors in parallel efforts may, in part, be responsible for this shift.

4.3 Performance of Government Agencies

GoK participation in project implementation took place at three distinct levels and with varying records of performance.

First, the involvement of GoK agencies (primarily the Ministry of Finance, the Ministry of Cooperative Development, and the Ministry of Works, Housing, and Physical Planning) in day-to-day project implementation was rather minimal and pro forma in nature. It largely entailed issuance of GoK approvals required for proposed changes in the internal allocation of project funds to the various project components and for procurement of goods and services required for project implementation. While the process of obtaining project approvals was time consuming for the RHUDO/ESA project manager, project records reflect few instances where GoK performance of these tasks significantly hindered project implementation.

Second, the GoK was responsible for providing counterpart funding support for the project. As previously noted, the total financial contribution of the GoK to the project ultimately

¹⁰Cooperative Housing Foundation (CHF) and Matrix Development Consultants (1989), "Financing Housing Through Savings and Credit Cooperative Societies in Kenya," Washington, DC: CHF for RHUDO/ESA, pg. 5.

exceeded expectations by a substantial margin, and this must be considered a key success of the project. However, the GoK was initially slow to meet its financial obligations to assist NACHU in the acquisition of adequate office space and equipment, transportation, staffing, and other logistical requirements defined as conditions precedent for the project. Delays in this area hindered the effective start-up of project activities by NACHU and its project-financed advisors.

Third, the GoK was expected generally to support, through its policy, regulatory, and investment decisions, conditions conducive to sustained private sector involvement in the provision and finance of low cost housing. Several government actions were singled out at the time of project design as being essential to this objective and expected to be leveraged through the HG-007 loan negotiation process: (a) a reduction in building and land development standards applicable to privately developed low cost housing, (b) a streamlining of the government permitting process for housing construction and land development, and (c) a greater emphasis on government servicing of land for privately developed housing. Unfortunately, little progress has been made in these areas since project inception, possibly in part due to the failure of the HG-007 loan project to move forward. In addition, while the GoK invests a considerable amount of its financial resources in the major housing finance institutions, it has not systematically used this built-in financial clout to encourage increased mortgage lending to low income households. GoK policy pronouncements continue to call for greater private sector involvement in the low cost housing field; however, questions remain regarding the commitment of the GoK and its local government partners to introduce the real world changes required for this purpose.

4.4 Performance of Contractors

As previously noted, technical assistance and training services under the project were not provided through a single contractor, but rather through a large number of independent consultants individually contracted by RHUDO/ESA for this purpose. The overall quality of contractor efforts appears to have been quite satisfactory. However, as might be expected, there was some variation in the performance of individual consultants.

Planning, legal, and training services provided to NACHU under the project were highly valued by NACHU and deemed to have made a particularly strong contribution to its long-term institutional development. NACHU's long-term housing advisor was largely responsible for the packaging of NACHU's first 10 housing projects, specifically, and assisted in the establishment of standard NACHU procedures for the identification, feasibility analysis, design, and contracting of housing projects, generally. Similarly, short-term technical assistance provided to NACHU was

extremely useful in generating NACHU's by-laws and cooperative training program.

4.5 Performance of A.I.D.

While A.I.D.'s overall performance in the implementation of the project appeared to have been satisfactory, several specific project preparation and management issues were noted.

The project design underestimated the difficulties inherent in implementing a unified housing program involving interrelated loan and grant projects. Inadequate attention was paid in the Project Paper to detailing the expected achievements of the grant project and the benchmarks for gauging its success. Omissions in these areas complicated the task of the project implementors.

The project was "management intensive," as a result of the RHUDO/ESA decision to directly procure all goods and services required under the project on an individual, incremental basis. The hidden costs to A.I.D. of this decision appear to have been significant. On the conservative assumption that each of the approximately 100 contracting actions under the project required an average of one person week of the combined efforts of the A.I.D. project manager, controller, and contracts officer, an additional two person years of A.I.D. professional staff services may have been devoted to project management purely as a result of this decision. Use of one or more intermediary contractors may, alternatively, have been as or more cost effective.

While A.I.D. project monitoring and reporting were generally adequate, weaknesses appear in two areas. First, greater care should have been taken to obtain and assess written feedback from persons receiving training under the project. In the absence of such information, it is difficult to gauge the effectiveness of this project component or the desirability of replicating it in future projects of a similar nature. RHUDO/ESA has since gone on to institute a more systematic monitoring and evaluation process for all of its subsequent training activities. Second, in light of the stated project purpose, a more concerted effort should have been made to formally monitor changes in the quantity of low cost housing built and financed in Kenya during the life of the project. Such data, disaggregated by income group, is not currently available.

Finally, questions exist regarding the appropriateness of charging a portion of the salary of the RHUDO/ESA economic advisor to the project as a long-term NACHU advisor. It appears that limited project-related services to NACHU were incorporated into the terms of reference prepared for this contractor or actually provided.

V. MAJOR FINDINGS

5.1 Achievement of Objectives

The project succeeded to a significant degree and under difficult circumstances in achieving its stated objectives (refer to Section 2.3), as follows:

- A stronger NACHU/housing cooperative structure was developed.

NACHU, a very germinal institution at project inception in 1983, is now fully operationalized as the apex organization for the housing cooperative system. Technical assistance, training, commodity support, and host country counterpart funding provided through the project directly contributed to the strengthening of NACHU's institutional capacity in the areas of services provided, organization and staffing, and finance.

- NACHU demonstrated the capacity to plan and contract cooperative housing projects benefitting nearly 500 households.

NACHU was technically assisted through the project to identify and design an initial \$17 million portfolio of 10 housing projects to benefit 2,962 low income households. Although the HG-007 loan project did not ultimately move forward as a source of capital financing, NACHU has subsequently contracted and gone on to implement five housing projects benefitting 474 households with financing from other sources, thus approximating NACHU housing production targets defined under the planned HG-007 loan project.

- Procedures were developed (and operationalized) to direct mortgage funding to lower income households.

Late in the project, technical assistance was provided which directly led to the establishment in the Cooperative Bank of a new mortgage lending program for low income households with an initial KShs. 55.6 million in local resources. The project had a less clear and direct impact on the mortgage lending practices of other, more traditionally defined Kenyan housing finance institutions. While they continue largely to focus on the upper and middle income housing market, HFCK, Kenya's largest housing finance institution, has begun to provide mortgage financing for GoK-sponsored low cost housing projects on a periodic, case-by-case basis. The extensive policy discussions pursued under this project may, in part, be responsible for this shift.

- Studies of overall housing needs and the workings of the primary mortgage market system in Kenya were completed.

A comprehensive series of reports were generated through project-funded technical assistance which included detailed coverage of the above subjects as well as more specialized analyses of informal housing finance mechanisms and the potential for mortgage financing through credit unions and cooperatives. Technical assistance was also provided to the GoK in the drafting of the "National Housing Strategy for Kenya, 1987-2000," a document which voices a stronger policy commitment to private sector housing provision and finance, but which has not yet been formally adopted by the GoK.

5.2 Lessons Learned

A number of key lessons were learned during the project implementation period which may assist in improving the design and implementation of similar technical assistance and training projects in the future.

The project design underestimated the difficulties inherent in implementing a housing program involving dual grant and loan projects, but with unified objectives and unified scheduling. Virtually all of the problems and delays experienced during project implementation were attributable to the failure of the design team (a) to distinguish carefully between the objectives of the grant project and the companion HG-007 loan project and (b) to anticipate that these projects might proceed on different schedules, or as was actually the case here, that the loan project might not proceed at all.

The project illustrated the dangers of assuming that need and demand for technical assistance are synonymous. While all project participants agreed that there was a clear social need for expanded mortgage lending to low income Kenyan households, the interest of the housing finance institutions originally targeted for technical assistance in this area was conditional and subject to the availability of capital financing through the planned but unimplemented HG-007 loan project for this purpose.

Particularly in "software" projects involving technical assistance and training, clear benchmarks are required to both channel and subsequently evaluate progress toward achievement of project objectives. Given the general absence of precise targets in the project design, RHUDO/ESA had little to guide it during project implementation beyond the rather broad objectives of strengthening NACHU and increasing mortgage lending to low income households.

Although it may seem obvious, it is difficult to gauge objectively the value of training programs without feedback from the persons trained. RHUDO/ESA lost the opportunity to learn from its own training program by apparently failing to build such a data collection effort into the project monitoring process.

This oversight has been rectified in subsequent RHUDO/ESA-sponsored training activities.

Greater use of institutional, or intermediary, contractors may be an appropriate strategy for RHUDO/ESA to consider in this day of diminishing resources and staff. The hidden costs to RHUDO/ESA of the labor intensive, direct contracting approach used in this project appear to have been significant.

VI. RECOMMENDATIONS FOR FUTURE PROGRAMMING

Any realistic consideration of future avenues of RHUDO/ESA support to the private shelter delivery and finance sector must take into consideration not only current sectoral needs in Kenya, but also changes in the resource base available to RHUDO/ESA for project initiatives and the direction of USAID's evolving country development strategy. This section of the report briefly examines each of these factors and goes on to outline several potential areas of future intervention.

6.1 Current Sectoral Context

Despite the contribution of grant project 615-0225 to improved low cost shelter delivery and finance through the housing cooperative system, many of the inequities and inefficiencies that generally characterized the Kenyan housing system at the start of the project in the early 1980s remain through the present. GoK estimates suggest that while 60,000 new housing units are required annually in Kenya's urban areas, only 40,000 are actually constructed.¹¹ Up to 80 percent of all new housing is believed to be provided through the informal sector, while 60 percent of all newly constructed units are thought to be unserved by minimally adequate infrastructure. In addition, approximately 80 percent of all urban housing is in the form of rental units, the majority of which are provided through the informal sector.¹² The typical low income urban household in Kenya occupies a rental unit consisting of a single room with access to limited communal facilities shared by several households.¹³

The Kenyan system for housing production and finance is, like the structure of employment, essentially bi-polar in nature. Low income households typically only have access to shelter and shelter finance provided through the informal sector. In

¹¹Housing Department, Ministry of Works, Housing, and Physical Planning, "National Housing Strategy for Kenya, 1987-2000," 1987.

¹²Cooperative Housing Foundation and Matrix Development Consultants, op. cit., p. 4.

¹³Department of Housing, Ministry of Works, Housing, and Physical Planning, op. cit.

contrast, upper and middle income households are generally able to obtain adequate shelter through the formal sector housing delivery and finance system.

There are two basic reasons for the limited involvement of the formal housing sector in the low cost housing market. First, the formal private sector housing system, consisting of numerous well-established land development companies and (now) three major housing finance institutions, continues to focus on the upper and, to a lesser degree, middle income housing market where potential profits are perceived to be highest. A representative of a major finance institution has noted that high building standards, cumbersome government permitting procedures for housing and land development, and the shortage of serviced urban land provided by public authorities are generally perceived to be obstacles to greater formal private sector involvement in low cost housing.

Second, despite an avowed, long term GoK commitment to low cost housing production and finance, sites and services housing projects undertaken by the parastatal National Housing Corporation (NHC) in cooperation with local authorities, are frequently characterized by cost overruns, implementation delays, and poor cost recovery performance and are unable to meet either planned production or pricing targets. As a result, much of this planned "low cost" housing is affordable only to middle income households.

In recognition of the above factors, the GoK has now called for a stronger commitment to truly affordable shelter solutions for the urban poor, emphasis on greater efficiency and cost recovery in government shelter approaches, and greater private sector involvement in low cost housing through the cooperative system and the informal sector. In regard to the latter, the draft National Housing Strategy for Kenya (which has never been formally adopted by the GoK) proposes a reorientation in "the role of government from one of direct developer of housing for lower incomes households involving moderate subsidies to one of working with and facilitating the development of this housing by private entities charging market prices. Part of this evolution will be to work with developers of what has in the past been informal housing."

6.2 Current RHUDO/ESA Programming

RHUDO/ESA's current strategy in Kenya focuses on three goals: (a) to encourage the government to modify its housing and land development regulations, support individual initiative in producing affordable shelter and urban services, and nurture the private sector; (b) to expand private sector development and financing of low cost shelter and urban services; and (c) to strengthen the financial and managerial capabilities of local

authorities to promote rural and market town development.¹⁴ Support for private initiatives in shelter provision and finance is, then, already a primary RHUDO/ESA focus in Kenya.

Until recently, RHUDO/ESA's staff and financial resources have been sufficient to allow it to pursue a diverse portfolio of shelter and urban development projects and technical assistance activities in Kenya and elsewhere in the southern and eastern African region. However, RHUDO/ESA is now in a transition period. Access to funding under the A.I.D. Housing Guaranty Program, RHUDO/ESA's traditional major source of capital financing for programs in Kenya, is becoming less certain; levels of RHUDO/ESA grant funding from A.I.D./Washington are in decline; and RHUDO/ESA's direct hire U.S. professional staff complement in Nairobi may be reduced from a high of four in 1991 to one employee by mid-1992. In light of these factors, RHUDO/ESA's future operations in Kenya must, realistically, be more closely associated with USAID/Kenya programming priorities and reflect a reduced level of effort.

6.3 USAID/Kenya Private Sector Strategy

Private enterprise development, a budding interest of USAID/Kenya at the start of grant project 615-0225 in 1983, is now one of the Mission's three strategic objectives. Approximately \$120 million of A.I.D.'s current project portfolio in Kenya is directed to support for the private sector in the areas of finance and equity market development, policy dialogue, investment promotion, and management and entrepreneurial assistance and training.

In October of 1990, USAID devised a Private Enterprise Strategy to guide new project development through 1995. This strategy reflects a considerable shift in Mission thinking and focuses on objectives in two key areas: an expansion of non-traditional exports and an increase in the profitability of small and medium scale enterprises. The Mission is also targeting privatization as a "special interest area" which may, ultimately, become a third leg of its private enterprise strategy.

The new Mission strategy provides both opportunities and constraints for RHUDO/ESA, with, perhaps, emphasis on the latter. The Mission will continue ongoing capital markets development and informal sector support programs, areas of traditionally strong mutual RHUDO/ESA and USAID interest, and then gradually phase them out. The new orientation to export market development clearly has little relationship to RHUDO/ESA's agenda. And while the emphasis on small to medium scale business development might appear to be a positive sign, the Mission strategy specifically (and inexplicably) singles out building and land development as a "non-productive" form of investment that the strategy seeks to

¹⁴RHUDO/ESA (April 1991), "RHUDO Strategy for Kenya," p. 12.

discourage. More positively, the Mission's new-found interest in privatization suggests a potential area for future Mission/RHUDO collaboration.

6.4 Recommendations

In light of the above, several minor adjustments to RHUDO/ESA's private sector shelter agenda are suggested. Generally, these include adoption of a tighter focus on support for cooperative sector housing delivery and finance so as to consolidate earlier RHUDO/ESA gains in these areas, limited use of RHUDO/ESA resources for policy dialogue and research regarding informal sector housing issues, and exploration of the potential for RHUDO/USAID collaboration in the field of privatization.

- **Cooperative Housing Mortgage Program (CHMP)**

Mobilization of local resources for mortgage lending to low income households through this program was one of the major achievements of grant project 615-0225. This program also has strong potential to support, indirectly, a significant increase in housing delivery by NACHU, the institutional strengthening of which was also a major achievement of the grant project. It is strongly recommended that RHUDO/ESA primarily focus its efforts on consolidating these concrete earlier gains through support for CHMP implementation, which is only just now commencing. In this regard, several new RHUDO/ESA initiatives are suggested.

First, it is recommended that RHUDO/ESA provide limited technical assistance to the Cooperative Bank to originate the detailed management and lending procedures required for implementation of this program.

Second, limited training assistance to the Cooperative Bank and NACHU is proposed in three areas: (a) sponsorship of one or more Cooperative Bank officials to attend the University of Pennsylvania Housing Finance Course, (b) hands-on exposure of key Cooperative Bank staff to the actual administration of community mortgage schemes, possibly through short-term placement in the Philippine National Home Mortgage Finance Corporation which has a similar lending program now underway, and (c) introduction by Cooperative Bank and NACHU of a standard training package for housing cooperative societies receiving mortgage financing under this program. This latter training package would focus on the basic collections, bookkeeping, and remittance procedures required for these cooperatives to fulfill their responsibilities under CHMP.

Third, it may be useful for RHUDO/ESA to sponsor attendance of one or more key officials of the National Social Security Fund (NSSF) at a short-term, US-based training opportunity in the area of housing finance. Continued NSSF financial support will be important to CHMP's future sustainability. Such training should

provide NSSF with a greater appreciation and understanding of housing finance issues and needs.

Finally, RHUDO/ESA should quickly initiate preliminary discussions with USAID/Kenya, the GoK, NACHU, and the Cooperative Bank to determine an appropriate course of action on the authorized but unborrowed \$10 million 615-HG-008 loan project. Use of a portion of this authorization for further capitalization of CHMP, if deemed to be needed, would be consistent with the defined purpose of this already authorized project. And, while recognizing the rather spotty recent history of HG loan project negotiations in Kenya, a borrowing may be feasible in the near future. RHUDO/ESA is now devising procedures required for local currency-denominated HG lending in Kenya and, furthermore, interest rates for dollar-denominated HG loan are now at very advantageous levels.

- Informal Sector Housing

The GoK has expressed approval in principle of the concept of supporting the informal housing sector, which, for better or worse, is the primary means through which low income urban households in Kenya obtain shelter. Unlike in many other developing countries, however, the GoK and its local government partners have not managed to translate this positive policy pronouncement into concrete action through, generally, support for slum upgrading or, more specifically, reform of stringent building and land development standards, reorientation of public expenditures for housing and urban land servicing toward low income households, or introduction of improved land tenure arrangements within informal settlements.

Recognizing that RHUDO/ESA and other donors have been engaging the GoK and, in particular, the recalcitrant Nairobi City Commission (NCC) in discussions on these issues for the last decade with little success, it is nevertheless essential that this effort continue. RHUDO/ESA's current approach and level of effort appear to be appropriate under these circumstances, consisting as they do of joint RHUDO/World Bank/UNCHS discussions with the NCC and GoK officials, with no immediate commitment of technical assistance or project funding.

However, RHUDO/ESA may wish to consider minor additions to its informal sector strategy.

First, one distinguishing feature of the Kenyan informal sector housing experience will need to be better understood if informed discussion of slum upgrading approaches is to proceed. Households residing in Nairobi's informal settlements are typically not owner-occupants of freestanding houses on squatted public land, but rather room renters in buildings constructed on private land by the legal landowners or their proxies. The complex prevailing land tenure pattern in Nairobi's informal settlements thus may rule out traditional slum upgrading

approaches involving a sequence of land servicing, plot subdivision, and plot award to individual occupant households and require other, more innovative solutions. RHUDO/ESA-sponsored research regarding the dynamics of Nairobi's informal sector rental housing market and recommendation of appropriate slum upgrading approaches would be a very useful contribution to the dialogue on slum upgrading issues now underway between donors and government agencies. A case study examination of a single Nairobi neighborhood may be appropriate for this purpose.

Second, government housing agencies often perceive concerns about Kenyan building and land development standards, permitting procedures, and land servicing to be donor issues, rather than Kenyan issues. While NACHU has traditionally chosen to maintain a low profile vis-a-vis government agencies, it is appropriate and timely for NACHU to begin to play a larger part in the evolving discussions with government regarding these subjects. Similarly, at a later date, the participation of the Cooperative Bank may also prove to be useful.

- Privatization

This is a subject of strong shared interest by RHUDO/ESA and USAID/Kenya which could lead to a considerable degree of future collaboration. In this regard, RHUDO/ESA may wish to explore with Mission staff possible activities in two areas:

First, two Mission-financed long-term advisors in the Ministry of Finance are currently assisting the Ministry to prepare a privatization implementation plan for the GoK, with particular emphasis on poorly-performing parastatals. This may provide an opportunity for a partial or full restructuring of NHC's operations, a long-held goal of RHUDO/ESA, the World Bank, and other donors active in the Kenyan shelter sector. RHUDO/ESA should quickly initiate discussions with USAID/Kenya on this subject.

Second, RHUDO/ESA may wish to explore with the NCC the potential for privatization of all or part of its ongoing housing finance and estates management functions, which the NCC performs very poorly to the detriment of overall Commission finances. Several options would appear to be possible: award of performance-based contracts to private companies to perform collections functions within NCC housing estates, sale of the NCC's rental housing stock to the sitting tenants or other private investors, and/or possible sale of notes held on NCC housing estates such as Umoja II where units are being sold to beneficiaries. If there is a genuine NCC interest in moving forward with such privatization activities, RHUDO/ESA may wish to provide limited technical assistance for this purpose.

**TERMS OF REFERENCE
PRIVATE SECTOR HOUSING GRANT PROJECT EVALUATION**

Background

The Kenya Private Sector Housing Grant (615-0225) was approved simultaneously with the Private Sector Housing Guaranty Project (615-HG-007) and was intended to provide grant funded technical assistance and other support in the implementation of the HG Project. The purpose of both these programs was to expand the role of the private sector in the production of low cost housing. The grant was authorized for \$1.12 million although only \$900,000 was actually obligated and spent since the Private Sector Housing Guaranty Program did not proceed. Funds were provided by the USAID Mission to Kenya and managed by the RHUDO/ESA. Activities funded generally included training, both in Kenya and abroad, technical assistance and commodities to the National Cooperative Housing Union (NACHU), and limited assistance to various Kenyan building societies. The PACD was August 31, 1991.

Purpose

The purpose of this activity is to conduct a final evaluation of the Private Sector Housing Grant Project (615-0225).

Scope of Work

1. USAID and the RHUDO/ESA will undertake a review and assessment of the activities under the grant. The first, and primary, objective of this evaluation will be to examine all components of the grant and assess whether the funds were used successfully to strengthen the role of the private sector in the production of low cost shelter. A second objective will be to examine the evolution of the roles of NACHU, the building societies, the capital market for housing finance, the Government of Kenya, and the private sector (both formal and informal), in terms of providing low cost shelter over the life of the grant. Finally, the third objective will be to identify activities and policies which could be pursued by donors (including but not limited to USAID and RHUDO/ESA) and the principal actors in the shelter sector which might further assist the private sector (both formal and informal) in producing shelter in the future. In essence, the evaluation will be used by the RHUDO/ESA to explore new opportunities in assisting the private sector's efforts to develop shelter at all income levels. This will need to be done with an understanding of the Mission's overall private sector strategy, which should be explored by the Contractor during the course of this evaluation in order to accurately and

realistically make proposals which can be supported by both RHUDO/ESA and the Mission.

2. The contractor will meet with relevant personnel in the USAID Mission and RHUDO/ESA for pre-evaluation briefings and orientation. All files pertaining to the Private Sector Grant and HG will be reviewed. In addition, the contractor will briefly review the evolution of the Mission's private sector strategy and how this grant complemented this strategy.

3. The contractor will meet with the major clients supported under the grant including NACHU, the building societies, and the relevant government offices. Areas of interest will include how the grant funds were used and whether this use strengthened the role of the agency receiving the assistance. Successes and failures should be noted with specific recommendations related to building on the successes and resolving the areas of concern.

4. To the extent possible, the contractor will provide a complete accounting of the use of all grant funds. Sub-sectors of the grant include long term TA, short term TA, commodities, and training. Activities under each of these sub-sectors should be identified.

5. To the extent possible, the contractor will identify several individual beneficiaries of the grant program, particularly the training sub-sector, and determine their views in terms of how successful the training was and whether it met their needs.

6. To the extent possible, a similar review of the commodities purchased should be undertaken. The contractor will examine whether the commodities are being utilized and whether they meet the needs of the beneficiaries.

7. The contractor will examine how the funds were programmed. the work will assess whether a systematic, comprehensive approach was utilized, or whether the funds were programmed in a fragmented manner and spread too thinly among diverse clients.

8. Given the project successes and failures found in this evaluation, the contractor will make recommendations related to possible future assistance for the private sector in Kenya in terms of its ability to produce shelter at all income levels. the Mission's Private Sector Office, Project Office, and Program Office should all be contacted for their views. In addition, the relevant Ministries should be contacted to determine their current thinking in terms of private sector housing. Finally, other donors, PVOs, and NGOs should be contacted to determine their views and programs concerning the private sector's role in the provision of shelter.

9. RHUDO/ESA will provide the contractor with the appropriate A.I.D. forms to be used to officially close out the grant. These forms should be used in the final report.

Level of Effort

A total of 27 work days are authorized for this evaluation. This includes 3 days to review the files and complete the orientation and 13 days to contact and complete interviews with the beneficiaries of the grant. An additional 5 days should be used to work with A.I.D., the GOK, NGOs, and PVOs to examine future assistance to the private sector. Four days are allotted to write the evaluation and the final two days should be used to complete the final editing.

Output

A draft report, consistent with A.I.D. requirements for evaluations but also responding to the major objectives of the evaluation set forth in paragraph 1 of the Scope of Work, should be submitted to the RHUDO/ESA and Project Office in USAID for their review. Their comments should be incorporated into the final report. Seven copies of the final report should be provided. The work will start on September 30, 1991 and an interim report will be due by November 15, 1991. The final report, which should include Mission and RHUDO/ESA comments, will be due not later than January 15, 1992.

DOCUMENTS REVIEWED

Project-Related Reports

- A.I.D.. "Project Identification Document: Kenya Private Sector Housing Program." Nairobi: A.I.D., 1983(a).
- A.I.D.. "Project Paper: Kenya Private Sector Housing Program." Nairobi: A.I.D., 1983(b).
- A.I.D.. "Grant Project Agreement: Private Sector Cooperative Housing Finance Project 615-0225." Nairobi: A.I.D., September 1984.
- Cooperative Housing Foundation and Matrix Development Consultants. "Financing Housing through Savings and Credit Cooperative Societies in Kenya." Washington, DC: for RHUDO/ESA, February 1989.
- Hollister, David. "Final Report [of Contractor Services to NACHU]." Nairobi: for RHUDO/ESA, January 1989.
- National Cooperative Housing Union (NACHU). "Informal Settlements Housing Survey." Nairobi: for RHUDO/ESA, undated.
- Jorgensen, N.O. et al. "Report by the Sub-Task Force on Housing Finance." Nairobi: Ministry of Works, Housing, and Physical Planning, November 1987(a).
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- Price Waterhouse Associates. "Report to USAID on NACHU's Organization and Operations (Second Draft)." Nairobi: for RHUDO/ESA, November 1990.
- RHUDO/ESA. "An Interim Evaluation of A.I.D. Assistance to NACHU." Nairobi: RHUDO/ESA, August 1989.
- Rihal, Baldip. "Final Report [of Contractor Services to NACHU]." Nairobi: for RHUDO/ESA, March 1988.
- Rourke, Philip, et al. "An Assessment of National Housing Needs and Affordability in Kenya: 1983-2003." Washington, DC:

Robert Nathan and Associates for A.I.D. Office of Housing and Urban Programs, March 1984.

USL International and the Urban Institute. "The Housing Finance System in Kenya." Volumes I and II. Washington, DC: for RHUDO/ESA, May 1986.

Other Documents

A.I.D. "Evaluation Handbook." Washington, DC: A.I.D., April 1987.

GoK. "National Housing Strategy for Kenya, 1987-2000, Report of the Steering Committee." Nairobi: Ministry of Works, Housing and Physical Planning, March 1987.

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Saad Yahya and Associates. "Expanding the Role of the Private Sector in Housing Development in Kenya." Nairobi: UNCHS, April 1983.

Struyk, Raymond. "Developing a Housing Strategy for Kenya: Recent Housing Production, Market Developments and Future Housing Needs." Washington, DC: The Urban Institute for A.I.D. and UNCHS, December 1986.

USAID/Kenya. "Country Development Strategy Statement and Action Plan, FY 1990-95, Kenya." Nairobi: February 1990.

USAID/Kenya. "Private Enterprise Strategy." Nairobi: October 1990.

UNCHS. "Promotion of Non-Conventional Approaches to Housing Finance for Low-Income Groups." Nairobi: 1984.

World Bank. "Kenya: Economic Development and Urbanization Policy." Volumes I and II, Washington, DC: December 1985.

DESIGN SUMMARY
PROJECTS G15-HG-007 and G15-0225
LOGICAL FRAMEWORK

Narrative Summary	CREDENTIALLY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Program or Sector Goal:</u>	<u>Measure of Goal Achievement:</u>		<u>Assumptions for Achieving Goal Targets:</u>
Improve the quality of life of lower income households through the promotion of user financed social services.	Increased number of housing financed and built by the private sector for lower income families.	1. Records of housing finance institutions. 2. Survey data on housing production.	Continued commitment of the private sector and housing cooperatives to provide lower income housing.
<u>Project Purpose:</u>	<u>End of Project Status:</u>		<u>Assumptions for Achieving Purpose:</u>
Develop the private sector's capacity to plan, develop, and finance lower income housing.	1. Approximately 3,000 housing units for urban households of below median income built and sold by private developers and cooperatives. 2. Approximately 3,000 mortgages for below median income households provided by the housing finance institutions. 3. Systems developed to channel loans into lower income housing. 4. Strengthened NACHU developing housing programs for member cooperatives.	1. Records of housing finance institutions. 2. Data on housing construction. 3. AID evaluations.	1. Willingness of local authorities to reduce standards for lower cost housing. 2. Availability of cash in private hands which is not being currently placed in the housing finance system and willingness of the people to move their savings to obtain a mortgage. 3. Sufficient profit margins for all range of housing for the mortgage backed securities.
<u>Project Outputs:</u>	<u>Magnitude of Outputs:</u>		<u>Assumptions for Achieving Outputs:</u>
1. Long term housing finance in the range of KShs. 30,000-90,000 per unit at current prices. 2. Construction of new housing units affordable to families below median income. 3. Stronger NACHU to develop and build housing for cooperative members. 4. Procedures developed to channel mortgage money into housing affordable to lower than median income families.	1. Approximately 3,000 new loans. 2. Approximately 3,000 new housing units. 3. Stronger NACHU/cooperative organization. 4. Agreement on procedures to channel Kenyan housing finance to lower cost housing.	1. Records of housing finance. 2. Data on new housing construction. 3. USAID evaluations.	1. GON draws down HG loan. 2. Cost of construction and interest rates do not increase substantially.

Best Available Document

Handwritten mark

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE INDICATORS

MEANS OF VERIFICATION

IMPORTANT ASSUMPTIONS

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Inputs:	Implementation Target:		Assumptions for Providing Inputs:
<ol style="list-style-type: none"> 1. HG loan. 2. Two long term technical advisors for NACHU. 3. Short term technical assistance for NACHU (12 months). 4. Feasibility studies for secondary mortgage market. 5. Short term consultants to housing finance institutions. 6. Training for housing finance institutions. 7. Local contributions. 8. RHUDD staff input. 	<ol style="list-style-type: none"> 1. \$20 million loan. 2. DA grant funds \$725,000 (long term T.A.). 3. DA grant funds \$160,000 (short term T.A.). 4. HG fee income \$75,000. 5. HG fee income \$25,000. 6. DA grant funds of \$235,000. 7. \$2 million in downpayments. 8. One person year of USDH input. 	<ol style="list-style-type: none"> 1. Lender and borrower reports. 2. AID evaluation reports. 	<ol style="list-style-type: none"> 1. HG loan authorized by AID. 2. Grant funds available in early 1984. 3. HG fee funds available.

CONTRACTOR CERTIFICATION

The writer of this report hereby certifies that no part of the evaluation contained in this report relates to activities that I was personally involved in, while a direct hire employee of A.I.D.


Barbara DeGroot
12/11/91