CHALLENGES FACING MICRO FINANCE INSTITUTIONS IN PROVIDING ACCESS TO HOUSING FINANCE TO THE URBAN POOR IN NAIROBI COUNTY

BY

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MASTER OF BUSINESS ADMINISTRATION (CORPORATE MANAGEMENT)

KCA UNIVERSITY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due references is made and author duly acknowledged.

Sign………………………………………….Reg.no…16/09024

Date…………………………………………

I do hereby confirm that I have examined the master dissertation of

David Kieti Muthama

And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

Sign__________________________________Date_________________________

Mr. Mackred Ochieng

Dissertation Supervisor

ABSTRACT

Housing finance is a major platform through which credit facilities for housing can be accessed by low income households. Housing micro finance institutions aim at providing financial access to the low income earners for purposes of land acquisition, house renovation or building new homes. The study examined the factors affecting micro finance institutions (MFIs) in providing access to housing finance to the urban poor in Nairobi County. To do so, the study sampled a list of 15 MFIs selected from a list of 59 as per the Association of Microfinance Institutions in Kenya (AMFI-K), with the last MFI being used for conducting a pilot test. The study undertook four objectives: establishing the various institutional legal and regulatory and the extent to which they influence the access to housing finance products by the urban poor, examining how interest rates affect the access to housing facilities, evaluating how the level of households' income affects access to housing finance products and establishing how land ownership in the urban areas influences the capacity of the urban poor to access housing finance. The study used a descriptive survey design. This research relied purely on primary data which was collected using a structured questionnaire. A multiple regression analysis was conducted to check if there is a significant relationship between the three independent factors; interest rates, income levels and land ownership against the dependent variable access to housing finance to the urban poor. The study findings show that while access to financing especially meant for house ownership by the urban poor is critical for the nation's development, there exists hurdles which if, well manouvred will greatly enhance access to funding and thus an increased ownership of decent housing for all. The study therefore recommended the formulation of policies that promote the HMFIs capacity to provide housing finance and that of the urban poor to access credit facilities, the reviewing of the extant regulatory frameworks to shrink the long process undergone by the urban poor in an effort to access housing finance and a downward review of the current interest rates to lessen the burden carried by the urban poor

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DEDICATION

I dedicate this dissertation to my dear wife, Bernerdarne Kiloko for her motivation and support.
To our two sons Joseph and Basil for their patience and giving me time.
Thank you all and GOD BLESS YOU

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ABBREVIATIONS AND ACRONYMS

AMFI-K	Association of Micro Finance Institutions Kenya
CBR	Central Bank Rate
CRBs	Credit Reference Bureaus
BDO	Business Development Officer
FIs	Financial Institutions
GDP	Gross Domestic Product
HFIs	Housing Finance institutions
HMF	Housing Micro Finance
KNBS	Kenya National Bureau of Statistics
KPDA	Kenya Property Developers
MFIs	Microfinance Institutions
MTP	Medium Term Plan
NGO	Non governmental Organization
SMEs	Small and Medium Enterprises
UN	United Nations
UNCHS	United Nations Human Settlements Programmes

OPERATIONAL DEFINITION OF TERMS

A short-term loan: is the size of loans (small) a borrower takes several times in order to complete a housing project. This is as a result of low income levels and a small loan repayment amount in less than five years (CBK, 2010).

Collateral: is a property or other asset placed by a borrower as a way for a lender to advance a credit facility (Leinter, 2006)

Cost of borrowing: interest and other costs incurred by an enterprise/individual in relation to the borrowing of funds (Pandey, 2005)

Debt maturity: is the date on which the life of a transaction or financial instrument ends, after which it must either be renewed or it will cease to exist (Moerman, 2010).

Interest rate: is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets (loan) (Leitner, 2006)

Housing Finance: is what allows for production and consumption of housing, it refers to the money used to build and maintain the nation's housing stock. (Peter King, 2009)

Low income households: They are persons earning and spending less than KSH 40,000 per month (CBK, 2010).

Microfinance: is the banking on the unbankable bringing savings, credit and other financial services within the reach of majority of people who are poor to be served by commercial banks, in most case due to lack of adequate collateral. (Gert Van Maanen, 2004)

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Housing is a fundamental need. Most of people hold dreams of owning their own homes in their lifetime. Yet, having access to housing finance is limited to many emerging economies in the entire world. Majority of Commercial banks and mortgage financial institutions have not been able to narrow housing gap for the low-income earners. Recent studies have revealed that there is gradual increase of demand for housing especially for the low income households in the urban areas (Sida, 2004). The study points out that HMFIs are coming up more diligently to address most of the issues affecting that cause hindrance to many urban dwellers which limits their access to affordable and adequate housing ownership especially in the urban cities. Housing finance encompasses disbursing loans particularly to low-income households for land acquisition, construction of a new home, expansion or revamping of an existing one, as well as basic infrastructure.

A suitable home provides a good environment to cater for families and improve financial security, living conditions, and empowers households to pursue more productive opportunities. The right to adequate housing is mentioned in the national constitution and legislation of most countries across the world. The legislation is rarely institutionalized or even implemented at different levels of governments. Many countries are experiencing rapid growth due to effects of urbanisation, today's poor especially in the urban cities live in substandard housing. They often access to economic opportunities in the cities but lack secure and affordable housing. As a result, households living in those houses are likely to be less economically successful.

Housing micro finance is a new avenue of providing access to house financing to the low income households.

Housing micro finance business was first strongly entrenched in Central America and Latin but slowly spread in Asia and other parts in Sub Sahara Africa. Microcredit lending the process used to provide financial access to small and micro-enterprises which aims at increasing the opportunities for marginalized groups. This approach was as a strong connection between home and income-generation activities of the low- income earners. Microfinance institutions realized that loans meant for business purposes were in most cases used for housing related activities like renovation. These renovations came in form of room extension or putting up a new building or even converting a residential house into a commercial building for income generation. The housing improvement could also take the form of providing for utility services like water supply and sewerage; convert a room into a food processing like a kitchen, rebuilding a house with more permanent materials and create space storage or for other business ventures. The Microfinance institutions therefore introduced more products to include housing finance products like land purchase, house expansion, electricity connection or home completions. The effect was to ensure that a household have more financial products that fit their needs or for their survival strategies (Center for Urban Development Studies, 2000).

In Kenya there are no clear polices for housing micro-finance business despite the fast growing micro-credit business is in the country. Sida, (2004) states that improvement of loans for housing has tremendously contributed to success. Land acquisition and new housing construction, for instance, are still dominated by subsidies, as opposed to financial services. Recent studies show that the Kenyan government’s goal of promoting the formal supply of affordable housing has not yet been realized. The World Bank’s report (2017) indicated that the low income earners ability to achieve their dream of owning a home is limited to factors such as; limited financial products, lack of access to financial legislations services and limited housing finance providers, inflated cost of available land, land security, high building costs, high interest rates, low income levels and other alternatives of home ownership methods. Another challenge is the lack of proper ownership documents for land where homes are to be constructed. On the other hand, high property pricing in most cities present serious impact on housing for the urban poor because majority cannot afford to rent decent houses.

The function or role of housing is multifaceted in that, house choices impacts employment, household income and poverty levels. Therefore, housing micro financing can be also be defined as unsecured microcredit made for the housing but may include other related financial services ranging from micro-insurance to meet the demand for the low-income earners to renovate or improve on existing houses or build new houses on incremental credit bases, credit and other financial products and services of small amounts for owners of small businesses in both rural and urban areas. (Costa, 2009). Kenya has a dynamic mortgage industry, which is increasingly becoming competitive. Financing for housing is an important aspect in the economic development of a country. Internationally HMF loan products exist depending on the approach each individual housing microfinance institution employs. The institutions try to provide housing loan product package from the main loans products. HMF loan products may include but not limited to minor improvement housing product loans, house completion loans, major house improvement loans, electricity connection to basic services loans, employer-based loans, land purchase loans, house purchase or new construction loans (CHF, 2005).

According to Australian study, (2008) having to secure suitable and affordable housing is a fundamental human right which is necessary for the wellbeing of the individual, family and community at large. CAHF, (2016) postulates that in Africa, the healthy way of creating an environment for delivering housing and house investment is dependent upon the availability of finance to support the initiative. The report further pointed out that a country's ability to finance and provide affordable housing has a direct impact on both housing delivery as well as the ability to access the financing by the low-income earners. The Ministry of Housing in Kenya has provided practical regulatory framework to act as a guide in the provision of housing in both Urban and rural setups. This has enhanced the establishment of ministerial departments which implement housing policies.

The Ministry of Housing, however, was reconstituted as a fully-fledged Ministry in following Government re-organization in December 2005. It was given the mandate of facilitating not only the development but also the management of decent, affordable housing to all citizens. Accordingly, affordable housing provision is paramount at the government level, the county level and individual level respectively. The unaffordability of housing among low income earners and access to housing credit facilities poses serious gap to economic policies in a country and other imbalances in an economy. Financial policies and regulatory framework to promote access to housing financing to the low-income earners especially to the urban poor should a priority to the government all the stakeholders in the housing sector. It can also be pointed out that financial service legislation can be put in place to promote financial discipline and impose necessary financial systems to maintain order within the financial sector. For instance, studies have reveals that legal and regulatory framework does not consider how the underprivileged to develop their own houses or expand them and instead limit their controls to residential housing constructions alone. Most financial institutions provide long term credit facilities to developers of houses that are sold on long term mortgage loans. According to Anyango, (2012) thousands of finance institutions (MFIs) in Kenya offer financial services at a community level and have gradually changed the lives of many small medium entrepreneurs. From 1990, Kenya has created a successful record for developing the market for finance services with consideration to model for Africa and other regions (Godwin, 2004). Most finance institutions in Kenya are tasked with the responsibility of streaming and enabling the access of micro credit to Kenyans.

According to AMFI, (2007) shows that Kenya had enacted the Finance Bill to monitor and control the finance institutions. The main aim of the bill is to protect populations from scrupulous financial institutions who are out to exploit citizens through high interest rates and other practices aimed at increasing profits among the financial institutions. Wright, (2009) points out that micro finance sector consists of the micro finance institutions which are registered and institutionalized. Also the micro finance providers include NGOs (both local and foreign), credit cooperatives and other banks like Equity bank, Sidian bank, Jamii Bora bank which offers micro credit which covers the informal establishments like the community based organizations, youth enterprise fund, relatives and friends. Report by United Nations Center for Human Settlements, (1995) points out that accessing decent housing is a fundamental human right which ought to be availed to all citizens.

Nevertheless, up to 50 percent of urban dwellers consists of mainly squatter settlements or live in the slums. Majority of government agencies in developing economies have projected the capacity for both middle and low-income households to access decent housing will rely on their individual effort. Accordingly, Werna (2001) argue that most developing economies have a deficiency in provision of housing and as a result individual housing development is not likely to come to halt. Due to overall economic decline in most developing countries there is lack of support for low cost housing.

In Kenya, inadequate government policy on housing has been a major hindrance towards the provision of adequate housing to the poor. This can be attested by the fact that most housing companies serve the convectional market and not the poor and as a result the country has witnessed the emergence of slums, illegal demolitions, acute housing shortage and soaring of house rents. Kenya Vision 2030 as a policy framework intends to sustainably provide the Kenyan citizenry sufficient and affordable housing. It further reinforces that the quality of life enhancement of the Kenyan populace, which is the primary objective in Vision 2030 stategy cannot be achieved unless there are sections of both rural and urban populace which still remain inadequately housed.

Kenya's first medium term plan (MTP 1, 2009 - 2012) of the Vision 2030 strategy had initially targeted to provide housing up to two hundred units, this was budgeted to be realized annually by 2012 for all income levels, but fell short with only three thousand units provided in between 2009 and 2012. The second medium term plan for 2013 to 2017 had projected the same target of units of houses. Had this vision been achieved, the present housing challenges would have been improved. With the assistance of housing finance institutions to avail loans, a majority of Kenyans, particularly in Nairobi County, would have had an opportunity to own decent and affordable houses.

Mukundi (2017) opines that the Vision 2030 blueprints targeted 200,000 units of houses annually for its citizens. The targeted houses has however not been achieved since presently, the production for housing is less than 50,000 house units per year. This creates a gap for housing of over 2 million housing units with 61 percent of households living in slums in the urban areas.

Due to the fundamental constraints on the forces of both demand and supply, the deficit continues to rise and is aggravated by 4.4 percent urbanization rate which is equivalent to 500,000 new city dwellers annually. There is limited access to long-term funding by banks and very few HMFIs have in the past accessed capital markets to finance mortgages according to Mukundi (2017). It is therefore imperative for Kenya, and particularly Nairobi which has the highest concentration of low- and medium income earners urban dwellers, to explore HMFIs role in bridging the gap in the finance market for housing.

In this study, affordable housing implies houses for lower- income households that are reasonably adequate and not so much costly that it would limit the capacity of households to meet their day to day basic needs on a sustainable basis. Nairobi County has the right fundamentals to ensure that an ideal housing situation has been achieved on a significant scale (World Bank's Kenyan Economic Update, 2017). The government and the private sector can collaboratively work together and strengthen the regulatory environments and supportive policies, to improve housing finance market for both house financing institutions and customers thereby narrowing the housing gap. This however, is not the case particularly in Nairobi County. The fact that fewer than 25,000 mortgages are outstanding this highlights the inaccessibility of affordable house financing in Kenya. In 2015, mortgage debt represented 3.15 percent of GDP (Mukundi, 2017), which was far much lower than other developing countries.

1.2 Statement of the Problem

A study by World Bank's Kenyan Economic update, (2017) highlighted that Nairobi area has shown target of 150,000 to 200,000 housing units per year. However, planning applications were only 15,000 units and more than 80 percent supply of housing going to the upper middle income which represents 48 and 35 percent going to the high income and only 2 percent going to the lower income segments of the population respectively. In Kenya, it is estimated that approximately one third (about 12 million) of its population do not have decent and affordable housing (Nabutola 2004:1). Vision 2030 was aimed at providing affordable housing as one of the primary focus. In the blueprint, the country's development was planned to achieve 'a well housed population living in a secure urban environment' (Kenya Vision 2030, 2008).

According to Raghib (2018), there was a 38 percent (which is equivalent to Ksh45.2 billion) drop in public spending in comparison to the last quarter of 2016. Majority of wealthy people reside in Nairobi, but the largest number of its inhabitants is the urban poor (Sheehan, 2005). Nairobi County is confronted with serious urban planning and management problems, as a growing number of its inhabitants find housing in sub-standard slum housing (UNEP, 2005). There are more than 200 slums in Nairobi (Dreyer, 2007), most of which lie on private or government land (Sheehan, 2005). The proliferation of slums is a result of urban migration, poor town planning, and the inability of low-wage earners to obtain loans (Sheehan, 2005). Studies on the challenges facing HMFIs in providing access to housing financing to the urban poor in Kenya being a case study of Nairobi County, indicate that majority of low class earners fail to access the micro financing due to lack knowledge of the available housing financing options and lack of legal documents of ownership of properties and equipment's that can warrant them to access loans.

On the other hand, the micro finance institutions lack adequate funds to meet the huge demand, lack stable sources of funds to repay the loan installments. There is limited access to long-term funding by banks and very few HMFIs have in the past accessed capital markets to finance mortgages according to Mukundi (2017). In Kenya, access to housing at every level by private developers is expensive with the cheapest newly build unit only within the reach of the minority of urban households. For example , Suraya Properties at its Encssa project 1 offers a 16m 2 bedsitter unit in Nairobi, for Ksh1 155 000 (US$11 500), or a 20m 2 apartment at Ksh1 760 000 (US$17 500), either on mortgage or in cash. A mortgage at fourteen percent annually and over fifteen years and with a twenty percent deposit, the 16m 2 bedsitter to service would cost US$267 per month, Only the urban population can affordable the house at fifty one percent (though, Suraya only included 85 of these units in its first phase). (CAFH, 2018)

It is therefore imperative for Kenya, and particularly Nairobi which has the highest concentration of low- and medium income earners urban dwellers, to explore the role played by HMFIs in bridging the gap in the housing finance market. It is against these issues that the current study intends to investigate on the challenges facing housing microfinance institutions in providing access to house financing for the urban poor in Nairobi County. This research seeks to highlight the challenges facing housing microfinance institutions to provide access to housing finance to the urban poor in Nairobi County as well as those faced by both existing and potential developers in the market.

1.3 Objective of the Study

The main purpose of the research will be to determine the challenges facing housing microfinance institutions in providing access to house financing to the urban poor in Kenya; the case of Nairobi County Kenya.

1.1.1 Specific Objectives

The specific objectives of the study are;

i. To establish how the various legal institutional frameworks and the extent to which they influence the access to housing finance products by the urban poor.

ii. To examine how interest rates affect the access to housing finance (MFIs) products by the urban poor.

iii. To evaluate how households' income affects access to housing finance (MFIs) products by the urban poor.

iv. To establish how land ownership in the urban areas affects access to housing finance (MFIs) products by the urban poor.

1.4 Research Questions

The research shall to provide answers to the following questions;

i. To what extent has institutional legal frameworks affecting the Housing finance institutions in the provision of housing finance?

ii. To what extent has interest rates affected the low income housing finance market?

iii. To what extent has income levels affected the access to housing financing by HMFIs in Nairobi?

iv. What are the strategies that can be put in place to address the issue of land ownership in the urban setup?

1.5 Justification of the study

Access to adequate, decent and affordable housing by the urban poor is problematic, not just in the county of Nairobi but also in other areas in Kenya. The challenges notwithstanding, access to proper housing is the right of every citizen (Crowley, 2003), and the government ought to ensure that the public is adequately sheltered. The challenge of indecent housing particularly by the urban poor has been a persistent hurdle since Kenya attained its independence in 1963. Regrettably, there has never been a viable solution due to inadequate research on why the urban poor find it difficult to access housing loans and why housing finance institutions fail to sufficiently provide the loans. This study is primary based on the need to address the following issues.

There is inadequate literature addressing the financial capacity of the urban poor and the challenges they face in accessing proper housing. For both the government and the private sector to address such challenges, adequate literature has to be available. Similarly, housing micro finance institutions have been undermined mainly by the existing regulatory frameworks. Some of these frameworks are either too strictly and therefore insufficient in addressing the financial needs of the HMFIs, or too loose to regulate their operations. The need for satisfactory information act as the basis for either amending the existing regulatory frameworks, or formulating new ones to facilitate for decent housing to the urban poor while at the same time providing the HMFIs with the necessary financial tools is the primary reason for carrying out this study.

1.5 Significance of the Study

Housing financing is a major platform in an economy in any country. The ability of to access house financing will not only promote wellbeing of citizens in a country but will sustain economic growth. Investment in affordable housing has a multiplier effect across the families and the economy given the linked sectors. The ability of urban poor to access house financing at reasonable terms, access to long-term housing credit is crucial to facilitating adequate housing thereby economic growth. The research will assist the management in identifying the areas of weakness that require improvement in making house financing more accessible to customers. Conversely, employee's views and suggestions will help the finance institutions develop competitive strategies to meet the housing financial needs of the market.

1.6 Assumptions of the Study

The first assumption of my study is that proper management of finance institutions will attract large number of urban poor residents to develop quality houses leading to improvement of living conditions of the urban poor in Kenya. Secondly, if micro finance institutions do not establish good structures that that reflect the market needs in housing finance they will fail to become attract meaningful business underperformance and as well many urban poor will continue to live in informal settlements because they cannot afford quality housing.

1.7 Scope of the Study

The scope of research will be focused on the challenges facing housing finance institutions in providing access to housing financing to the urban poor in Kenya and with specific reference to the selected HMF providers and individual property developers all drawn from Nairobi County. The study will mainly focus on a total population of 565 employees (branch managers, head of departments and business development officers (BDOS) and it was further subjected it to stratified random sampling where a sample of 15 percent in each category was selected drawing up a total of 85 respondents. Questionnaires were used in the gathering of data from employees. The research was carried out within a period of eight months starting April 2019 to November 2019.

CHAPTER TWO

LITERATURE REVIEW

3.1 Introduction

This chapter will represent the relevant literature on the topic of study. The chapter begins with relevant literature concerning challenges facing housing finance institutions in providing access to housing financing to the urban poor in Kenya. The chapter goes ahead to represent the study of the theoretical review, empirical review, review of the specific objectives, conceptual framework, examine the independent and dependent variables as well as their operationalization.

3.2 Theoretical review

Theoretical review interrogated the background theories that that are related to finance. According to Dietz and Haurin, (2003) finance has significantly improved the social economic status of the homeownership. Further, Theodori, (2001) points out that housing greatly influence the satisfaction by broad array of the perceived conditions. In particular, the review shall examine three theories namely; the housing adjustment theory, Efficient Market Hypothesis, Agency Theory and Transaction Costs Theory.

3.2.1 The Housing Adjustment Theory

The housing adjustment theory is a theory which was advanced by Morris and Winte in 1975. (Morris and Winter 1966). the theory looks at the current household's welfare state and the housing systems. Families seek to maintain equilibrium by continuously evaluating their house based need on two criteria given the life cycle state. Evaluating family norms and cultural norms when the household does not meet the norms, it tends to give raise to dissatisfaction thus producing a propensity to reduce the normal housing deficit. Security, space, durability, cost, tenure and structure type and neighborhood would amount to housing norms. When the norms are not met, the household experiences a housing deficit. The theory further argues that if a household is living below the norms of the society , there is a feeling of dissatisfaction and the households tend to make trade-offs, focusing on resolving the deficits of greatest importance. For example, tenure as a norm is likely that the house is under own land. However, the house does not stand on ones land or the house is build on land whose ownership is under investigations then the house will experience a deficit.

These feelings of dissatisfaction with one's current housing .The individuals or households' satisfaction is a judgment that make one consider the extent to which their normal situation compares with the ideal situation they imagine for housing. The household feeling of satisfaction is determined by the following factors; objective characteristics of the household which include personal and social-economic characteristics and subjective wellbeing which is defined by value, perceptions and aspirations.

A household is perceived to compare between what its ideal or aspired to situation and their actual lived in situation, this leads to its manifesting satisfaction or not doing so. In case there is dissatisfaction, the household may do the following; redefine its needs or change its assessment of subjective measures, or change the household characteristic or those of the housing.

The Housing Adjustment Theory has some weaknesses though. The theory attempts to explain; satisfactory situations of households with unsatisfactory ones within their housing. The balancing act takes multiple evaluation factors: existing environment like the level of household's income, interest rates in the markets, perceived deficits, and presumed housing norms like decent and affordable housing. The many variables and conditions leads to a situation where the same set of information could be approached from a different angle with each study and the results would vary from time to time. Another weakness of the theory is that, housing Adjustment theory does not exhaustively explain why people adjust or, why they do not adjust to cultural norms. While cultural norms are a strong driver in housing design and people (for a variety of reasons) chose not to follow the dominant ways. Some households have different aesthetic tastes...while others either lack the means or ability to make changes. Thus, the Theory is somewhat limited because it lacks the ability to explain (or predict) how individuals will adjust their individual housing preferences.

3.2.2 Efficient Market Hypothesis

The above theory was developed at University of Chicago by Fama in the early 1960's. The theory propagates that a market incorporates the prices information, while in practice the asset price represents the actual value of that specific item. The theory holds the basis that rational expectations concept which give projections of value in the future of economically relevant variables are not systematically wrong and therefore errors are random. The theory further claims that prices reflect even the insider information. However, investor and researchers have often disputed this theory since it does not reflect the market dynamics. According to (Paul Volcker, 2008) most recent financial crisis was unjustified in rational expectations in market efficiencies.

In addition, Critics have argued that financial intermediaries usually reduce the accuracy of full disclosures and efficiency of markets by creating private information asymmetries, while the prices of securities are influenced more by speculators as well as by insiders and institutions that trade in stocks for reasons unrelated to their value, such as for diversification, liquidity and taxes. Through careful analysis of the market efficiency it has become evident that finance lack sufficient funds. For instance, if the market is not sufficiently efficient then there will be no flow of funds in HMFIs. Therefore, it has the implication that finance institutions will fail to reach many urban poor (Tomas, 2013). Thomas pinpoints that finance is changing from a niche product to a highly recognizable kind of finance in the world.

From a house financing context it can be said that the available information on pricing for the house is a perfect reflection. However, diversity within the regulatory and market has opened gaps in relation to sound operation. Fama, (1991) argued that most financial sector informational are efficient in the long-term period and therefore not likely to achieve excess returns on investment. Further, he argued that efficient markets are easily reflected in the market prices.

3.2.3 The Transaction cost

The transaction cost theory emanates from the theory by Ronald Coase (1960). Cheung (1969) defines transaction cost theory as ‘‘any cost arising from the existence of institutions as well as the appearance of an economic exchange.’’ Transaction cost puts much emphasis on the relative efficiency of different exchange processes. In other words, Firms organizes their firm products especially their transaction cost when coordinating production through the market exchange provided imperfect information is greater than within the firm. Williamson (1985) identified the key determinants of transaction cost namely; uncertainty, specificity, frequency, opportunistic behavior and limited rationality.

The concept of transaction cost has been typically used in the finance literature to give justification for the applying of high interest’s rates of lenders that would be outstanding to the small loan size. According to Markowski (2002), HMFIs have a double mission of ensuring provision of financial services to a big number of low-income earners to better their wellbeing and to provide a commercial mission to those particular financial products in a viable financial manner. Finance is thus, a difference between the commercial mission and social mission (Simanowitz& Walter, 2002).

3.2.4 Agency Theory

The Agency theory was originally the work of Ross and Mitnick and was advanced further by Fama and Jensen (1980). Fama further argued that a relationship occurs between a principal when an agent to act on his behalf. According to the Agency theory any deviation from the interest of the principal by the agent since agency costs consist of the costs that are inherently associate with the use of agent as well as the costs of solving the problems emanating from using an agent. Due to credit relationships there are elements of an agency problem since agents, the borrowers act on behalf of the principal, who are actually the lenders whose loans must be refunded or repaid. Therefore, information asymmetries normally occur in the agency relationships simply because one of the parties owns privileged information. However, in a lender borrower relationship it hard for the principal to consistently monitor the actions of the agents and instead the principal should ensure proper investment of resources to recognize the agents for their work or to encourage the agents to take actions without interfering with the interest of the lender. According to Tomas (2013), having security is a basic element of a loan contract and will also bring solution to principal agent problem, which is present in finance. This theory is an asset to finance institutions who target housing finance because it limits losses in case of defaulters and again solves the issue of asymmetric information that occurs between the HMFIs and low income borrowers.

Asymmetric information helps give information on the quality of borrowers and based on the collateral will determine their ability to repay loans. Stigliz and Weiss (1981) points out that collateral helps in reducing adverse selection by signaling. It therefore implies that the HMFIs cannot oblige their poor customers to pledge physical collateral since they may be having very little or no security at all. With this realization it will enable the HMFIs to device loans that are in the form of physical-collateral-free loans, for instance it can be achieved through encouraging of savings discipline of the low income borrowers and the group-lending with combined liability which can be attached as security (Woradithee, 2011).

3.3 Empirical Review

This section evaluated the previous related studies focusing on the study objectives, context, methodologies employed, and the findings. But most important the knowledge gaps in those studies are brought out, the limited provision of house financing by the HMFIs to the urban poor, the large informal markets, complex land markets, a disconnect between spatial planning in urban areas and housing policy, tension among policies targeted at various income levels especially lower-income and middle income groups and limited availability of affordable formal housing options and largely ineffective public housing schemes. According to a UNCHS world summit (2005), empirically demonstrates the need for and access to housing was recognized by the attendees and the significance of giving ‘‘access to financial services, particularly for the poor through finance and microcredit was acknowledge as a prerequisite of all countries developmental stage notwithstanding. Urbanization has put a lot of pressure for countries across the world to solve the housing crisis according to UN, African's urban population is approximated to grow from 22.3 percent to in 2010 to 20.2 percent in 2050 where there are 52 cities with more than a 1 new urban dwellers (UN Habitat 2014).

According to (UN 2015), Cities gain about a 1 million new urban households in Sub-Saharan African every year to match a 70 percent urbanization level in Europe and North America. In sub Saharan Africa, the existing housing stock remain overcrowded and of low quality therefore forcing the low-income earners to find other housing options leading them to low quality and without secure tenure. In Mexico, it is estimated that there are about 26.8 million units of houses from which 68 percent live in the urban cities, with a household of 4 person on average and about 1.3 persons per room. According to (UH-HABITAT 2011), 20 percent of the country's houses about 5.4 million households exist in inadequate conditions, 58 percent (3.2 million homes) needed to expand, rehabilitated and improve furthermore, 42 percent (2.2 million households) need to be completely replaced. Mexican constitution grantees its citizen of their right to housing despite the prevailing difficulties in dealing with the fact that a large segment of the Mexican population is characterized by very limited in education, low wages, social inequity and barriers in the job market ranging from informal employment (40 percent of the occupied population) to complete unemployment.

In Afghanistan, the rapid urbanization and increased population growth has pushed housing demand in urban areas. Since 2001, Afghanistan has experience a steep growth in population especially in urban cities and provinces like Balkh, Kabul, Herat, Nangarhar and Kandahar in chase for improved employment prospects. By 2008, Afghanistan's housing sector has been characterized by a serious unmet demand and big number of damaged buildings with few new low price housing developments leading to growing informal settlements. In South Africa, the scale of lack of adequate housing delivery is demonstrated by the high demand and the growing number of households living in slums. The unwillingness of the traditional financial sector to make loans to the urban poor has made the situation of housing in South Africa worse according to (UN- Habitat, 2008). The report further argues that the housing backlog is monumental as is the number of un-housed or under-housed has grown from 2.4 million to 3 million households. The government of South Africa has taken measures to investigate alternatives to deal with reconstruction and development programs for better living conditions and standards for the majority South Africans.

The World Bank predicts in the next 25 years the urban population will double with about 40 percent of African's one-billion people already living in cities. The report by the World Bank also puts the rate of people living in slums to be growing in African. Africa's housing sector is highly heterogeneous with huge differences in supply and financial access between its countries. The ability by many countries to use property as collateral for credit facilities is often affected by legal uncertainties because in most cases property rights are not well defined and constitute serious risks that discourage private investors. This discourages the financial institutions to reach out to the down market and cater for their financial needs. Countries are faced by some consistent patterns that impede fully functioning housing sector to different income earning levels people in the society.

Thus the burgeoning home crisis in African cities need a dynamic and sustainable housing micro lending businesses that are willing to invest and find alternative ways of narrowing the housing gap. UNCHS further pointed out that the access to numerous financial services to the low-income people has proved worthwhile in the empowerment of the poor to have access to quality living. In a similar research in Ghana by (UN-Habitat, 2010) housing is considered a basic necessity of life that every country should adopt because the quality of housing gives a fundamental basis for improved standard of living. Additionally, Banleman and Biitir (2008), carried out a research and investigated on the housing finance market and the effects of promoting housing improvement for the low-income residents in Kenya. After administering the research to the target population it perhaps became apparent that the housing micro financing concept of was relatively new. Further, Banleman and Biitir described the markets as new, emerging and associated high risks factors.

Akenju, (2007) defined housing as the basic human need. The National Housing policy (2002) further, said gaining housing is a process because housing cannot stand on its own without the interaction with other sectors such as financial sector, environment and private sectors respectively. Therefore, housing is a combination of services (Agbola, 1998). While, Oduwaye, (2012) considered housing finance as applicable in both formal and informal sectors of the economy. Jennifer et al, (2009) also looked at the impacts of micro-enterprise credit in Kenya regarding the client's access to credit and its use in the establishment of housing facilities. This survey instruments can be improved to a variety of context and users, including monitoring and evaluation of credit impacts within housing needs. The study revealed low effort in the creation of the product awareness to the consumers. Most suppliers are therefore operating a supply-led HMF without understanding the consumer needs. HMF is thus, more popular in urban areas as compared to the rural areas who have little knowledge of the housing finance institutions.

Mbogua and Nganga (1973) and Chana (1984), carried out a research with the view of establishing the housing needs and demands that exist within the low income households. The study revealed that the projected housing demand during the period 1986-2001 indicated that about 348,000 housing units were needed to meet the increasing housing demand. Daphnis and Ferguson (2004) housing finance is key to improving habitat and the sustainability of finance institutions. The research pointed out that HMF products normally targeted a particular market segment which included both the private and public sector salaried workers who have either bought land or started some building structures. Yates et al, (2007) noted that affordability of housing is currently being faced with diverse and complex situations right from within the housing system and outside.

3.3.1 Legal Institutional framework

In order for HMFIs to become more efficient, they need to be supported by strong legal and regulatory framework. Eggertsson (1994) pointed out that the establishment and enforcement of laws regarding property rights ownership, mortgages, contracts and collaterals are prerequisite to the creation of efficient financial systems because it controls the uncertainties and risks that may result from high costs of investments. The research further indicated that most developing countries, especially the urban poor lacks the institutional foundation which has created a problem because the financial lenders require a structured system that would provide formal procedures that assist in the enforcement of financial contracts. Accordingly, Yaron and Benjamin, (1998) argue that lack of proper laws and regulations is a huge hindrance to the formal sector especially in the delivery of credit to poor borrowers. The laws that outline the activities and regulations of credit facilities, the number of institutions providing the services to the low-income and the suitability of their products to the needs and means of the poor. (Brown et al.,2002). The constraint have resulted into unstable microeconomic, sectoral polices and social economic situation confronted by many developing countries. Harris (2010) postulates that although regulatory frameworks have various advantages, they come at costs like control of capital requirement and changes in interest rates and even supervision costs. Financial service legislations are enacted to promote financial discipline and impose necessary systems to maintain order in the financial sector. The institutional policies and regulatory framework do not address how the low-income earners build their own homes instead limit their controls to residential housing constructions only. Financial institutions offer long term credit facilities to developers to construct houses on long term mortgage loans. The poor mostly purchase land without proper documentations either through leasing, squatting, subdivision or inheritance and start building their houses progressively as they acquire adequate funds to enable them access house financing. Innovation in designing housing finance products is required for the house improvements through mortgage facilities for period of three to five years to construct.

The diversity of HMFIs, therefore, can lead to major problems and exorbitant prices in an effort to process and monitor all. The regulatory authorities pass this huge cost on to the HMFIs through mainly license fee, thereby making it even difficult and costly for the HMFIs to do business. When agencies in-charge of regulations imposes caps on interest rate, the HMFIs are forced to bear extra costs of operation as they promote and give small loans particularly to the urban poor. Although interest rates can prevent usurious lending, it negatively affects the loan borrowers base of these institutions, attracts a less capital requirement thereby limiting their entrance into the financing business.

3.3.2 Interest rates

Charging of high interest rate is one of the biggest challenge facing majority of housing finance institutions. Research of HMFIs in India, (2015) showed that high interest rate made it difficult for the urban poor to repay their loans. Kimutai (2003) added that interest rate represents the price that the lenders of money expect borrowers to pay for the exchange of current entitlements. Kimutai in addition argued that the higher interest rates the slower the growth and the development of the economy due to curbed inflation. Ingram, (2011) further, illustrates that in an economy where the interest rates are higher the borrower’s uptake of housing finance is usually low due to the higher monthly repayment obligation of the loans acquired as opposed to when the interests are low because more borrowers are willing to take up more loans.

The existence of strict conditions setup by the traditional banks force a majority of low-income dwellers in urban cities to live in poverty in their entire lifetime. This is due to inability to access loans and other financial services and products by provided by these banks a characteristic presently defining the HMFIs. Those who qualify then face high interest rates which end up worsening not only the cost of housing but also other social services such as education. Interest rates, and in this case, high rates, stand in the way of promoting adequate and quality housing especially to the city dwellers (Reichert, 1990).

Among other factors, interest rates have the most significant impact on provision of decent housing by the urban poor (Okoth, 2015). The increase in the cost of credit affects the HMFIs, property developers, the tenants, particularly those in the low-cost housing segment, as well as those intending to own a house in the urban areas. For instance, the two recent increments in Central Bank Rate (CBR) totaling to 11.5 percent in 2015, resulted to the deterioration of the housing status in the urban Kenya, particularly in the county of Nairobi. This implied that the HMFIs could no longer provide their financing capacity at a rate deemed affordable by the urban poor and the cost of land and rent became exceedingly high for the urban poor to keep up with. Historically, according to Okoth (2015), whenever lending rates have risen, the property development and investment especially lower cost areas and housing developments has either stagnated or declined due to the high cost of lending for both developers and tenants.

Analyzing the increase in the cost of property and access to decent housing by the urban poor, Karoki (2016) points out that between December 2000 and June 2015, the average value for a property had gone from Sh7.1 to 26.7 million respectively. An average value for 4-6-bedroom property was then at 40.2 million compared to Sh. 12.9 million for 1-3-bedroom property. This is bound to worsen for the urban poor who cannot even to buy such properties but instead rely on tenancy.

3.3.3 Income levels of Households

There are no standardized national definitions or limitations set for the various income levels in Kenya. Although the baselines for income levels in Kenya are referenced in the poverty lines (based on nutrition level) by KNBS (2013). In the study, Low- income earners are those who are the majority for the large part of their income to basic human needs like food, energy and transport. In addition, their basic needs include food, shelter and clothing. Due to the low income within the urban poor it denies them the opportunity to access housing finance. According to the UN-Habitat Human Nature, (2011) majority of the urban poor find it difficult to afford land in the urban areas due to increased costs of owning land. Escalation of building materials has also affected the urban poor. In a Study of the Swiss economy, Borowiecki, (2009) showed that the house prices and their construction revealed to be more sensitive to the prevailing changes in both population and construction materials.

Research by the UN-Habitat Human Nature further demonstrates that majority of local and central governments in Africa puts a lot of compliance codes as well as regulatory requirements which increases the costs of construction thus, the urban poor are discouraged from seeking housing finance to build or develop homes eventually resulting to conventional building methods. A report pictured in Business Daily (2013) showed a steep rise in land prices which has locked out the urban poor in Kenya of achieving their dreams of owning a home. According to the report the extent of price escalation is shocking particularly in the busy suburb on the south west of Nairobi where an acre initially cost Kshs. 765,000 is currently going for 14 million shillings. Therefore, the high cost of owning land affected the ambitious urban poor in Kenya.

According to this report affordable housing is relative to the incomes earned by individual households which denies the urban poor the financial capacity to purchase land and construction materials.

3.3.4 Land Ownership

Chepsiror (2016) affirms that in Kenya, cost is primarily driven by the price of land as well as a cluster of other costs which can be tricky for the low income households whose monthly income is not commensurate with the ever-rising cost of property. Urban land cost of general affordable housing, in 2015 and 2016, was the costliest in Africa going at $14826 for relative blue prints, 120 square metre stand. In addition, a generic paucity of housing, which is normally referred to as excess demand, is a driver of price escalation. This is because it displaces low income households from those housing proportionate to their monthly income even when the units are custom (built for them).

In many countries, (CAHF, 2018) the acquisition of well-located parcel of land is an important an element for cheap quality housing. House prices in different African countries vary as reported by CAHF, the price for a ‘’standard house’’ in countries like Kampala, Uganda, and Dakar, Senegal, land goes for more than 25 percent of purchase price of a “standard” 55m 2 house on a 120m 2 plot piece of land. Land was found with a comparatively high in Nairobi, at US$15 229 for 120m 2 in a 20-unit house and comprising twenty-three percent of the total cost of a house price. Costs of land include planning approval costs and the purchase price of land for either traditional or freehold tenure. In Nairobi the major cost element is land compared to Dakar, the cost of land registration comprised of nine percent of the total land purchase cost. In Kampala, land purchase cost comprises of five percent of the total cost. In Douala, Cameroon, a 120m 2 plot of land in a 20-unit construction was lower at US$4 316, registration costs comprised 43 percent of the land total cost. Land acquisition in Maputo, Mozambique by working a centrally-located low-income settlement. Households have existing land rights but their houses are of poor quality and in other cases only shacks are available.

In Kenya, the initial policy blueprints of projected 200,000 housing units every year across different income levels, has proven unbecoming particularly to the low income households since currently, less than 50,000 housing units enter the Kenyan market every year (Okoth, 2015). Presently, the accumulated deficit is over 2 million units. Many cities are surrounded by large parcels of under-utilized of government land which can be converted into affordable housing instead of pushing the poor out. The municipal government should incentivize the conversion of under-utilized urban land to affordable housing development. Low income households end up being displaced by both developers and high income households. In the last five years, real estate has outperformed all the other classes of assets as evidenced in by an estimated increase in returns from 10 percent per year in the traditional asset classes to 25 percent at the present rates. In 2013, for instance, the prices were virtually thrice those in 2000. The residential units' prices outperformed the yields from rentals averaging only 5 percent, while retail space and office averaged 10 and 9 percent annually, respectively (Chepsiror, 2016). This illustrates the trend in the ever-increasing prices of housing and land, which poses a big challenge to the low income residents in urban cities and especially in the County of Nairobi.

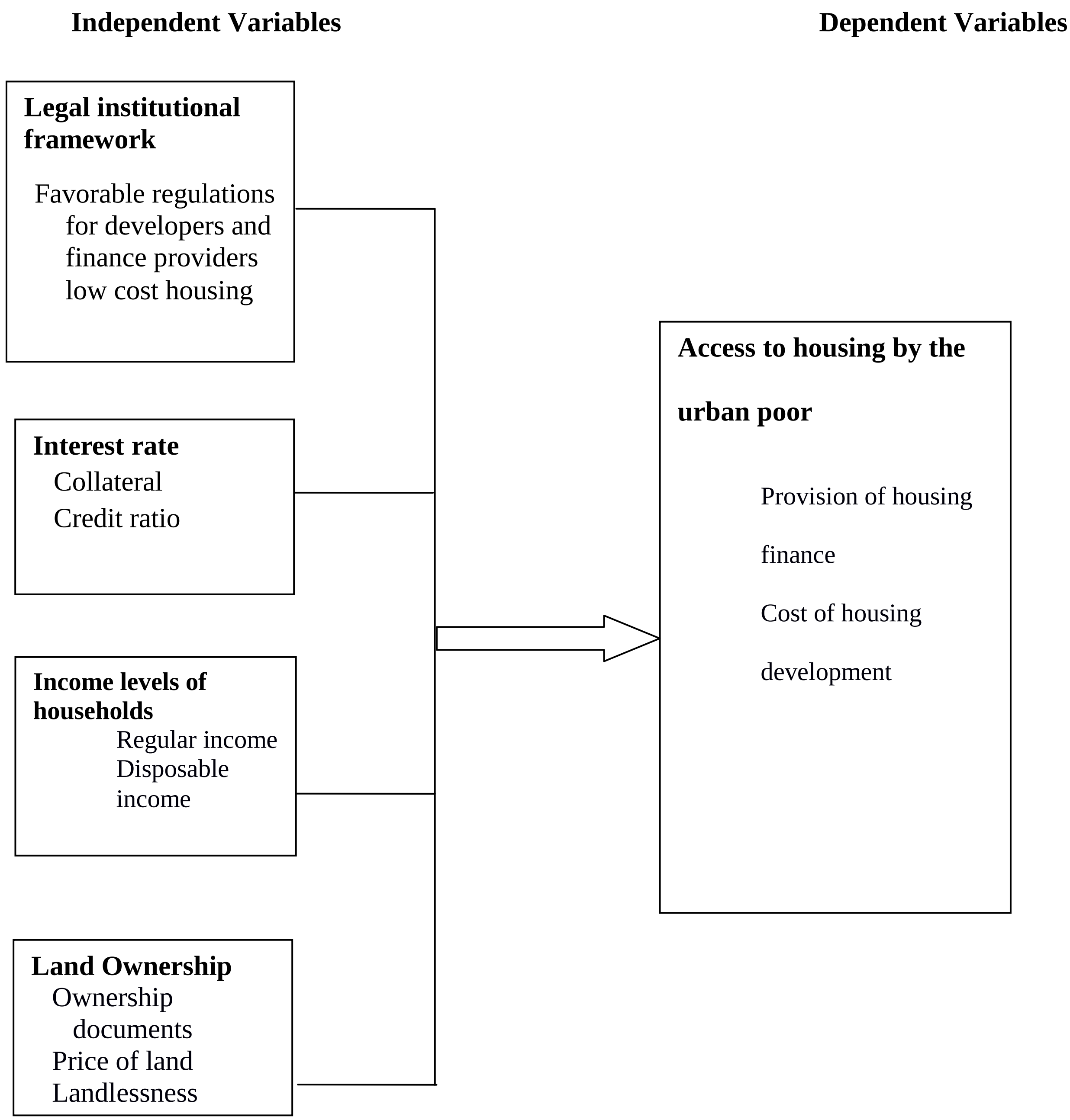
2.3 Conceptual framework

The conceptual framework in Fig 2.4.1 illustrates the relationship among the variables under study:

The conceptual framework in this study shows the relationship between the independent and dependent variables. This variable will be measured using: institutional legal framework, interest rates, levels of household income and land related issues. It gives an illustration of the challenges that face HMFIs and house developers, the measures that are required for an improve access to housing finance by the urban poor in Kenya.

Figure.1: Conceptual framework

Conceptual framework of the challenges facing housing finance institutions in providing access to housing financing to the urban poor in Kenya; the case of Nairobi county Kenya



Source: (Author, 2019)

2.3 Operationalization of variables

Variable (Independent)	Objective	Indicator(s)	Measurement	Scale
Y – Access to housing micro financing by the urban poor	To establish the strategies that can be put in place to address the issue of housing financing access by the urban poor	- Income levels - Poverty levels in urban areas -Availability of funds to HMFIs	Capacity to borrow and repay - Housing financial products -Number of financing institutions	Nominal
X1 – Institutional legal framework	To establish the challenges facing finance institutions in the access of house financing.	- Available legal framework - Housing Policy - Institutional legal guidance	- Access to Housing finance	Nominal

X2 – Income Level	To determine how the level income affects the capacity of individuals household to access housing finance	- Quality of living by households - Growth of housing in the urban areas	- Improved income earning by the households. - New housing projects	Ordinal
X3 – Interest rates	Establish how Interest rates affect access to housing finance products by the urban poor	- High/low interest rates - Credit ratio rating -Default rates - Low/high levels of investment by urban poor	Capacity to borrow and repay Reduced/increased Property Ownership	Ordinal
X4 - land	To establish how scarcity of land in the urban areas has affected access to housing finance provision by HMFIs	- land ownership - ownership of other immobile assets	-Number of households living in informal settlements	Ordinal

Table 2.5.1: Operationalization of variables

Source: (Author, 2019)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter mainly discussed the research methodology that shall be adopted during the study. The study shall cover the research design, target population, sample size and sampling procedure, data collection instruments, validity of the research instruments, Reliability of the research findings, data collection procedures, data analysis and lastly but not least chapter summary.

3.2 Research Design

According to Yin (1989) research design deals with a logical problem and not a logistical problem implying that a systematic plan has to be initiated to study a scientific problem in a specified area. Design of a study therefore defines the study type i.e. inferential, descriptive, research questions, independent and dependent variables, data collection methods, and statistical analysis of the design or plan. The purpose of this study was analyze and identify the challenges facing housing micro finance institutions in providing access to housing financing to the urban poor in Kenya and a descriptive survey research design was used. According to Aggarwal (2008) this research method is not simply about assembling and arranging facts but involves proper examination, explanation, collation, determination of directions and associations.

In another study by Best and Khan (2009) it states that, a descriptive survey involves presentation of an issue highlighting its state, operations, customs, associations, opinions, or directions. The survey design involves collecting information about existing circumstances or situations with the objective of explanation and exposition. This study utilized primary data analysis as the methods for data collection.

3.4 Target Population

A study by Ogula, (2005) define a population refers to any group of institutions, people or objects that have common characteristics. The target population constituted a case study of the selected housing microfinance institutions that have undertaken the development of low income houses or have facilitated financing to such developments, within the county of Nairobi for the last 10 years. The researcher collected data from branch managers (BMs), head of departments (HoDs) and business development officers (BDOs) using the criterion shown in Table 1. Out of the 59 MFIs, only 15 met the criteria for inclusion with a target population of 565 officers drawn for sampling for the purposes of this study. The results were then generalized to other institutions which the researcher has not put under study.

It is important to note that the selected institutions, in addition to providing housing services, are also providers of housing finance at different rates of interest. The research choice of microfinance institutions providing house financing is informed by their unregulated nature by the Central Bank of Kenya whose rates of interest vary from one institution to another. This presents the urban poor with a privilege to choose.

Table 1: List of MFIs in Nairobi County Kenya qualifying for inclusion

	Institutions	**Branch Managers**	**Head of Department**	**Business Development Officers**	**Total**
1	Jitegemea Credit Scheme	17	18	32	67
2	Jamii Bora	14	11	27	52
3	AkibaMashinani Trust	7	9	21	37
4	MakaoMashinani Ltd	4	5	12	21
5	OIKO Credit	19	10	28	57
6	Musomi Kenya Ltd	15	16	24	55
7	U & I Micro Finance	16	11	19	46
8	Samchi Credit Ltd	9	8	15	32
9	Biashara Factors	8	9	14	31
10	Taifa Options Microfinance	6	5	13	24
11	Micro Africa Ltd	7	9	15	31
12	Yehu Microfinance Trust	12	8	19	39
13	Fusion Capital Ltd	6	9	12	27
14	Faulu Kenya	16	12	18	46
	Total	156	140	269	565

Source: (Author, 2019)

3.5 Sampling design

A sample is a smaller group or sub-group obtained from the accessible population (Mugenda and Mugenda, 1999). This sub group was carefully selected so as to be representative of the whole population with the relevant characteristics. Sampling is a procedure, process or technique of selecting a sub-group from a population to participate in the study (Ogula, 2005). Each case or member in the sample is referred to as subject, respondent or interviewees. The process involved selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected.

There are 59 registered MFIs as of 2017 as per AMFI-K. The sample will be obtained from housing microfinance institutions selected based on two criteria: a positive response to the consent letter and provision for a housing facility. Out of the 59 MFIs, only 15 met the criteria for inclusion. Out of the 15, the researcher selected 1 SUMAC DTM Limited) (onto which a pilot test would be conducted while the other 14 were selected for the actual test. The sample size comprises of employees from the 14 MFIs made of branch managers, head of departments and business development officers, making a total of 85 respondents as illustrated in Table 2. The reasons for selecting the three set of respondents from the same institution was because employees at various levels of management have different clearances and as such, the officers may lack some information only accessible by those in managerial positions.

Table 2: Selected sample size at 15%

	Institutions	BM at 15%	HoD at 15%	BDOs at 15%	Total
1	Jitegemea Credit Scheme	3	3	5	10
2	Jamii Bora	2	2	4	8
3	AkibaMashinani Trust	1	1	3	6
4	MakaoMashinani Ltd	1	1	2	3
5	OIKO Credit	3	2	4	9
6	Musomi Kenya Ltd	2	2	4	8
7	U & I Micro Finance	2	2	3	7
8	Samchi Credit Ltd	1	1	2	5
9	Biashara Factors	1	1	2	5
10	Taifa Options Microfinance	1	1	2	4
11	Micro Africa Ltd	1	1	2	5
12	Yehu Microfinance Trust	2	1	3	6
13	Fusion Capital Ltd	1	1	2	4
14	Faulu Kenya	2	2	3	7
	Total	23	21	40	85

Source: (Author, 2019)

3.4.1 Pilot Testing

Due to the nature of the study, and to eliminate any inconsistencies and complexities may be experienced by the respondents, the researcher first conducted a pilot test on 1 (SUMAC DTM Limited) microfinance institution which was not be included in sample size. The survey will be administered under similar conditions as planned for the actual data collection. Both start and end time was recorded to ascertain the length of time taken to complete the questionnaire. The researcher was then able to study the respondents' behavior such as hesitation or seeking clarification and therefore accordingly adjusted the final questionnaire to eliminate the vagueness or difficult which may be a potential setback in the data collection.

3.6 Data collection Instruments

The primary data collection instrument in this specific study was by use of questionnaire. This was used for the purpose of collecting primary quantitative data. The advantage of using questionnaires includes; great potential of reaching out to a large number of respondents within a short time, the respondents had adequate time to respond to the questions in the questionnaire since they can be left and picked on a later date in case they are busy, Questionnaires offer a sense of security (confidentiality) to the respondents while the open questions gives room for vivid description of answers enabling the researcher to explore more information Finally, there was no biasness resulting from the personal characteristics (Owens, 2002). The questionnaire offer confidentiality and a sense of security to the respondents. The questionnaire was divided into main areas of investigation while the first part shall capture the demographic characteristics of the respondents. Other sections of the questionnaire will be organized according to the objectives.

3.7 Validity and reliability of research instruments and techniques

The validity of the data collection techniques, and therefore the findings, was obtained by presenting both the questionnaire to at least two professionals, my supervisors, to ensure that the measures cover the broad range of areas within the concept under study thereby fostering the capacity to predict future results. On the other hand, reliability was achieved through test-retest and inter-rater forms of reliability. The former was obtained by administering the same test twice (through piloting) over a period of time to a group of respondents from the intended sample size, while the latter was assessed the degree to which my supervisors agree with my research instruments and techniques.

3.8 Data Analysis Techniques

Data analysis normally entails the reduction of accumulated data to manageable level, summary development, identification of patters as well as application of statistical techniques (Schindler, 2002). The study used both quantitative and qualitative methods of data analysis. To ensure easy analysis, the questionnaire items was edited in order to detect errors, omissions, hence correct them after which data coding was be done.

The study explore the challenges facing microfinance institutions in providing access to housing finance to the urban poor in Nairobi. The variables were categorized into response and explanatory variables. Assuming all other factors are constant, the relationship between the variables was stated using a mathematical function. The independent variables are: institutional legal framework(X_1), interest rate(X_2), level of income for individual households(X_3) and scarcity of land(X_4), while access to housing facility by the urban poor(Y) is the dependent variable and represented as: Statistical analysis was derived from regression equation describe below:

$\boldsymbol{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4, + e_i}$ where

Y= Access to housing micro financing by the urban poor

β_0 = Constant

X_1 = Institutional legal framework

X_2 = Interest rates

X_3 = Income levels

X_4 = Land

e_i = the residuals of the model

This was followed by classification of the data ready for presentation in terms of percentages, graphs and tables.

3.9 Diagnostic Test

3.4.2 Goodness of Fit Test

Coefficient of determination (R^2) was used to measure the extent to which the variation in supply chain management performance is performance is explained by the variation in its determinants. Adjusted R^2 was also used to test the goodness-of-fit requirement bearing the multiple determinants. Correlation analysis will be used to compute correlation coefficient (r) which was used to assess the relationship between variables, the direction of the relationship and the strength of that relationship.

3.9.1 ANOVA Test (F-Test)

F-test was performed to the test the significance of the whole model at a 5% significance level. The F-calculated value from the regression data and the F-critical value from the F-distribution table was applied in determining the robustness of the model. The p-value was also used in testing the significance of the model. If the model results of the p-value are below 0.05, then the model was deemed satisfactory.

3.10 Test of Normality

The study employed skewness and kurtosis test to examine the normality of the variables. The normality of variables, according to Kline (2011), can be assumed if the skewness statistics ranges within interval (-3.0, 3.0) while the kurtosis statistics is within interval (-10.0, 10.0). Shapiro Wilk test was, in addition, employed to study the test for normality. If the p-value of any of the variables was less than the significance level, then the researcher would reject the hypothesis that such variable is not normally distributed. If the p-value would be greater than the significance level, then we do not reject the hypothesis that such variable are not normally distributed.

3.11 Economic Plausibility Test

Economic plausibility test was conducted to check the logic of the relationship that is expected to prevail between access to housing financing and each of the independence variables.

3.12 Specification Analysis Tests

3.12.1 Multicollinearity Tests

Multicollinearity is when we have high correlation between the independent variables in the study. Brooks (2008), states that an independent variable becomes the exact combination of other independent variables, the model cannot be estimated since it is in a perfect collinearity position. Multicollinearity test was conducted to determine if the two or more of the predictor (independent) variables in the regression model was highly correlated. Variance inflation factor (VIF) was used to test multicollinearity. If the VIF value of exploratory variables was greater than 10, then variables were regarded as highly collinear. (Myers, 1990).

3.12.2 Heteroskedasticity test

Homoscedasticity is an assumption that the errors terms in the regression models have a constant variance. On the other hand, heteroscedasticity is an assumption of linear regression that accounts for errors in the regression equation. The linear regression assumes that the error term is homoscedastic which means that its constant variance. The data was tested using Glejser LM test to detect any case of heteroscedasticity.

3.13 Ethical Concerns and Considerations

The ethical consideration of the study was obtaining informed consent to carry out the study on the respondents. The considerations for respondents which the researcher upheld during the study was to ensure that information given by the respondent was treated with utmost confidentially and was exclusively be used for study purposes and not be used in any manner that might be prejudicial. Before the administration of the questionnaires, the researcher obtained a letter authorising the study from KCA University

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This section gives the presentation and analysis of the collected data. It also illustrates the summary statistics in form of tables and diagrams. The study aimed at determining the challenges facing housing micro-finance institutions in providing access to house financing to the urban poor in Kenya, and particularly in Nairobi County. The study purposed to establish the various legal and regulatory Acts and the extent to which they influence the access to housing finance products by the urban poor, examine how interest rates affect the access to housing facilities, evaluate how the level of households' income affects access to housing finance products and finally to establish how land ownership in the urban areas influences the capacity of the urban poor to access housing finance.

4.2 Pilot test

As specified in chapter three of this study, a pilot test was conducted on SUMAC DTM Limited. In addition, to establishing the feasibility of the questionnaire, the researcher also took this opportunity to understand whether the institution in question also undertook a similar test when launching housing facilities. To this question, the results from the branch manager, head of department and the business development officers, were as illustrated in figure 2. All in all, the researcher found out that questionnaire could be favorably applied and assist the researcher meet the objectives specified in chapter one of the study. However, the researcher identified a variation in the information provided by the three sets of respondents with the field BDOs portraying knowledge of only the basics of housing facilities. This variation was attributed to the difference in clearance levels.

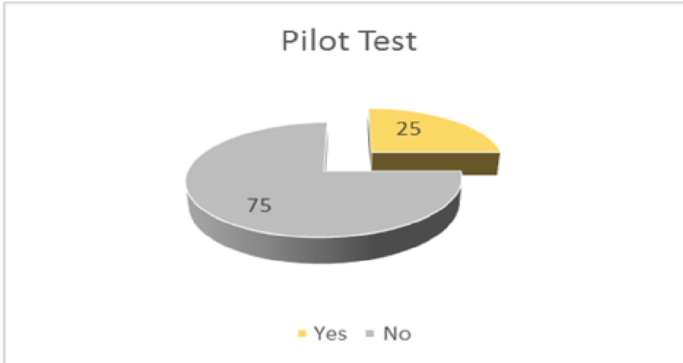


Figure 2: Pilot Test Results

4.3 Response rate

This study sought feedback from a sampled population of 85 participants by sending out questionnaires. From the sampled respondents, 62 adequately filled questionnaires were returned, representing a response rate of 73%. This is as shown in the table below.

Table 3: Response Rate Summary

Respondents Category	Sample Size	Response	Response rate
Branch Managers	23	18	75%
Heads of Department	21	14	67%
Business Development Officers	40	30	75%
Total	**85**	**62**	**73%**

Source: Research Data (2019)

As per the details in the table above, the response rate was at 73%. The response rate by the Branch Managers and the Business Development Officers was impressive at 75% in both cases with feedback levels for the targeted Heads of Departments being 67%. Mugenda and Mugenda (2003) opines that a response rate higher than 69% is deemed as very high and is expected to produce credible and accurate results.

The returned questionnaires were adequately reviewed to determine their completeness and sufficiency for being used in the actual analysis.

4.4 Reliability of the Data

To achieve reliability of the data, the quality of data is as good as the tool used to collect the data. Cronbach's Alpha Coefficient was used in this study to ascertain the internal consistency. The general rule of thumb is that a coefficient of not less than 0.7 lends credence to the internal consistency of items used to measure the construct (Gliem & Gliem, 2003). From the analysis, a coefficient of 0.912 was obtained. The results are as captured in table 4 below.

Construct validity was demonstrated by high correlations between the items that comprised the constructs. This is a strong indication that the data collection tool used was reliable. Cronbach alpha is a reliability coefficient based on the average covariance among items in a scale. The average correlation of an item with all other items in the scale articulates the extent of the common entity.

Table 4: Cronbach alpha coefficient

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.912	.917	14

4.5 Descriptive Analysis of Study Variables

From the analyzed data, descriptive statistics were used to describe all the variables of interest used in this study, including both the independent variables and the dependent variable. The study research questionnaire categorized data using a 5 point Likert Scale as follows; 1= Strongly Disagree: 2= Disagree: 3= Moderate: 4= Agree and 5= Strongly Agree. Additionally, means and standard deviations of each aspect of all the variables was obtained and subsequently an overall Mean (M) and Standard deviation (SD) derived.

A deeper analysis of each of the factors studied was done as follows;

3.4.3 Effect of the Institutional Legal Framework on the access to house financing to the urban poor

From the study objectives, the research sought to establish the effects that institutional legal and regulatory frameworks have on the access to housing finance to the urban poor. This variable was analysed through several factors as shown in the table below;

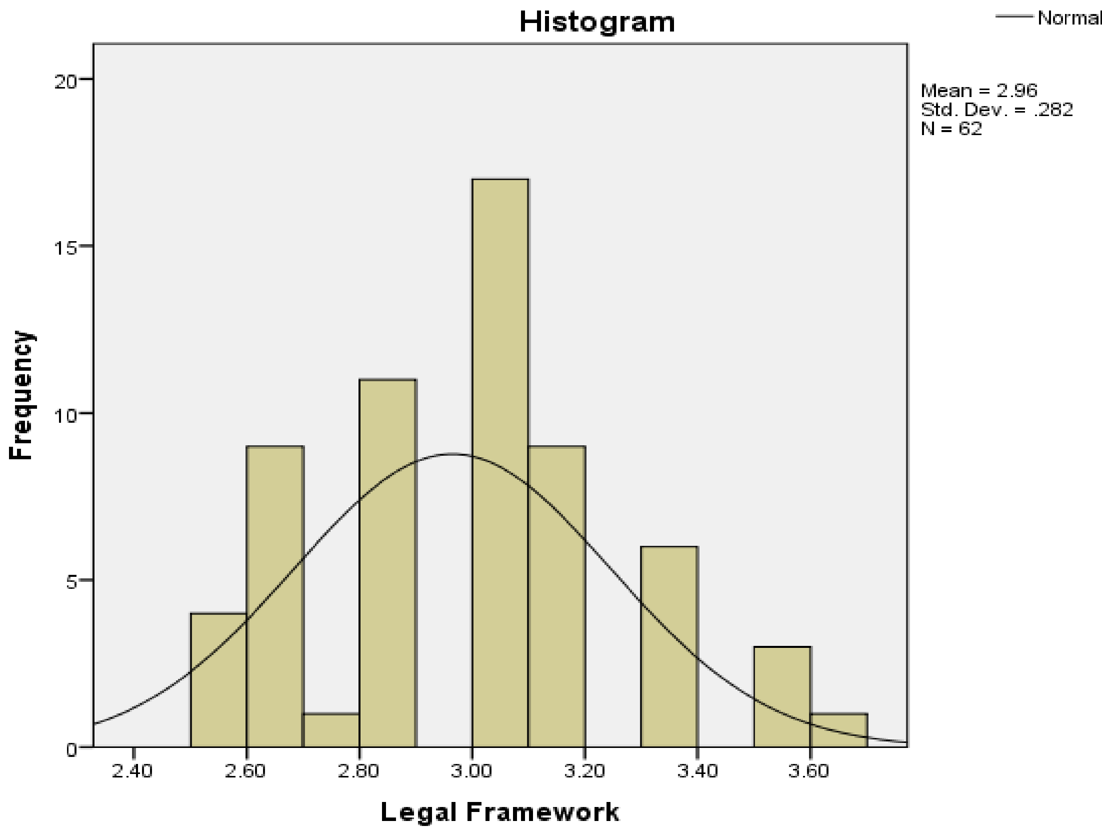
Table 5: Effect of Institutional Legal framework

Effect of Institutional Legal framework

Indicator	N	Mean	Std. Deviation
Legal framework affects access by the urban poor	62	3.29	.710
Legal Framework affects access to financing products	62	2.50	.901
Legal framework affects access by MFIs	62	3.82	.666
Legal guidance has no impact on MFIs giving financing products	62	2.03	.886
Adequate regulations increase access to housing finance by the urban poor	62	2.53	.620
Knowledge of existing framework does not affect access to housing by urban poor	62	3.61	.964
Average Institutional Legal Framework		**2.97**	**0.790**

Source: Research Data (2019)

Figure 3: Effect of Institutional Legal Framework



As seen in the table and the graph above, the respondents were moderate in their opinion on the claim that institutional and legal framework has an effect on the access to housing financing to the urban poor (Mean = 2.97, SD = 0.790). The respondents agreed to the assertion that an inadequate legal framework results in limited access to financing by the HMFIs to avail to the urban poor borrowers (M = 3.82, SD = 0.666). This goes to show the importance of enhanced and elaborate legal regulatory framework as a key aspect in facilitating financing in aid of the urban poor.

As shown from the feedback, the respondents also agreed to the claim that knowledge of legal frameworks in place does not necessarily affect the access to housing finance (M = 3.61, SD = 0.964) implying that more pressing factors will influence house ownership by the urban poor. In addition, the respondents, who work in HMFIs, disagreed with the assertion that institutional legal framework has no significant impact on their capacity to provide affordable housing (M = 2.03, SD = 0.886), showing the critical need for adequate and appropriate legal framework to facilitate seamless issuance of housing financing to the urban poor in order to bridge the housing gap.

4.5.1 Effect of Interest Rates on the access to housing financing for the urban poor

As per the objectives, the study investigated the impact of interest rates on the access to housing financing aimed at the urban poor. This was sought through several factors which cut across affordability by the potential customers and the willingness of HMFIs in offering financing based on the prevailing interest rates and the credit ratios of the target population. The findings were as shown below:

Table 6: Effect of Interest Rates

Effect of Interest Rates			
Indicator	N	Mean	Std. Deviation
High interest rates hinders access to affordable housing	62	3.79	.656
High interest rates leads to low access to financing products	62	3.50	.844
Interest rates to MFIs don’t affect cost of housing products	62	2.52	.825
High interest rates lead to high default rates	62	3.19	.649
HMFIs should not consider loanee credit ratio	62	2.48	.695
Interest rates are not a hindrance to housing access	62	2.18	.915
Average		**2.94**	**0.76**

Source: Research Data (2019)

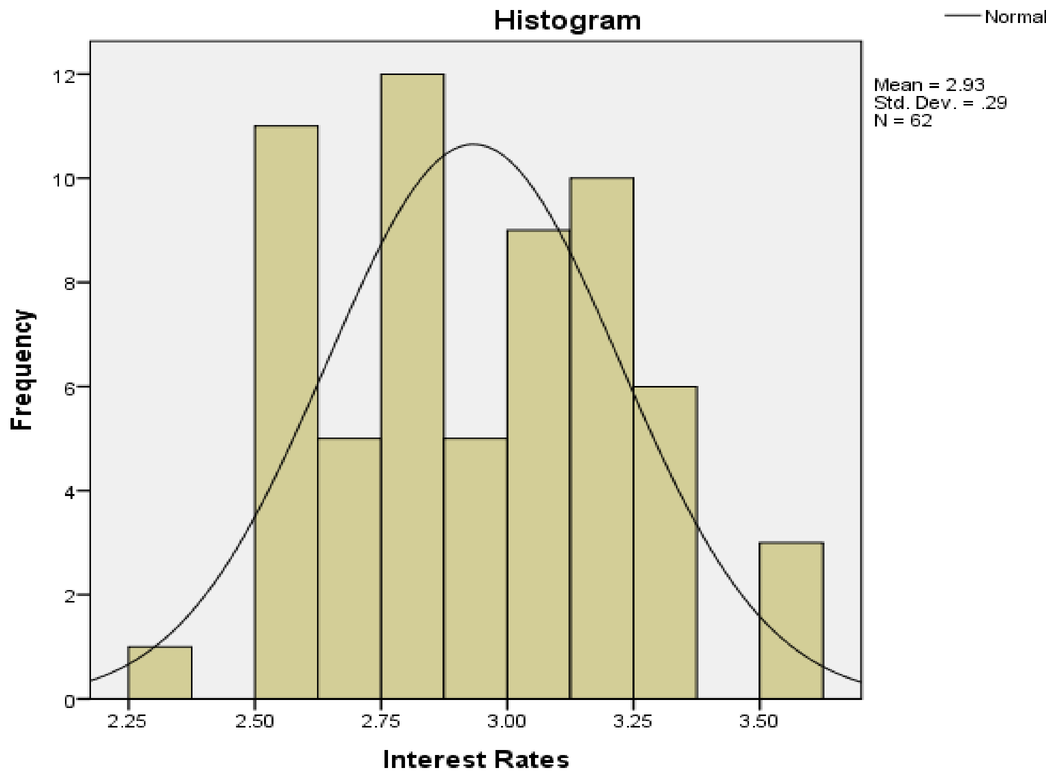


Figure 4: Effect of Interest Rates

From the findings above and as represented in the graph, it is evident that the respondents were moderate when it comes to the assertion that interest rates have an impact on the access to housing financing access amongst the urban poor (M = 2.94, SD = 0.76).

There was however a general agreement among the respondents that high interest rates are among the key factors that hinder access to housing financing amongst the urban poor (M = 3.79, SD = 0.656). The respondents also agreed on the claim that high interest rates result in low output of financing products by the HMFIs (M = 3.50, SD = 0.844). This means that in as much as the financiers are willing to make as many financing products, high interest rates will always be a hindrance to the extent that they can go with the same. On whether financing institutions should consider the borrower's credit ratio before advancing the products, the respondents generally disagreed with the statement (M = 2.48, SD = 0.695), meaning that they would prefer financiers consider the borrower's credit ratio when conducting loanee appraisals.

There was a divided opinion amongst the respondents on the claim that the higher the interest rates on housing loans, then the higher the anticipated default rate (M = 3.19, SD = 0.649). This shows that some respondents considered other factors as more responsible to loan defaults compared to the level of interest rates, whilst others thought of it as a major contributor.

4.5.2 Extent to which level of income affects access to housing finance

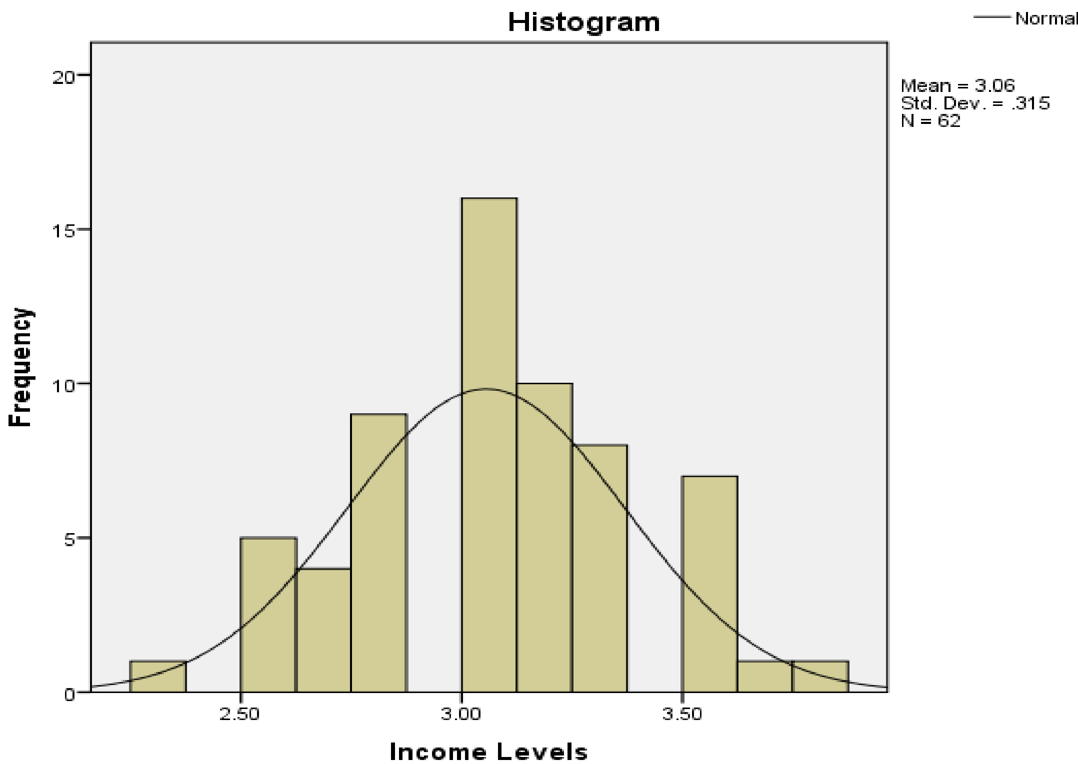
As per the set objectives, this study wanted to establish the effect (if any) of the level of household income on the access to housing financing to the urban poor. This was done through analysis of various factors as per the table below;

Table 7: Effect of Income levels

Effect of Income levels			
Indicators	N	Mean	Std. Deviation
Regular income is a pry requirement before financing	62	3.39	.947
The higher the income the higher the possibility of financing	62	3.23	.948
Income level should not determine the amount of collateral	62	2.63	.891
Amount of funding does not depend on income levels	62	3.60	.757
Level of household income does not affect HMFIs willingness to finance	62	2.95	.818
Households access to housing is not affected by level of income	62	2.58	.897
Average		**3.06**	**.880**

Source: Research Data (2019)

Figure 5: Effect of Income Levels



From the findings, it is evident that the respondents were moderate (M = 3.06, SD = 0.88) in their general feel on the impact of level of income as a factor in housing financing. The respondents were neutral with the claim that high income levels of applicants led to higher probabilities of financing (M = 3.23, SD = .948). They were also neutral with the assertion that the income levels should not determine the amount needed as collateral (M = 2.63, SD = 0.891) meaning that some support the financing institutions approach of setting the collateral amount based on the income level of the applicant whilst some thought it should not be a key determinant.

4.5.3 Extent to which Ownership of land affects access to housing financing to the urban poor

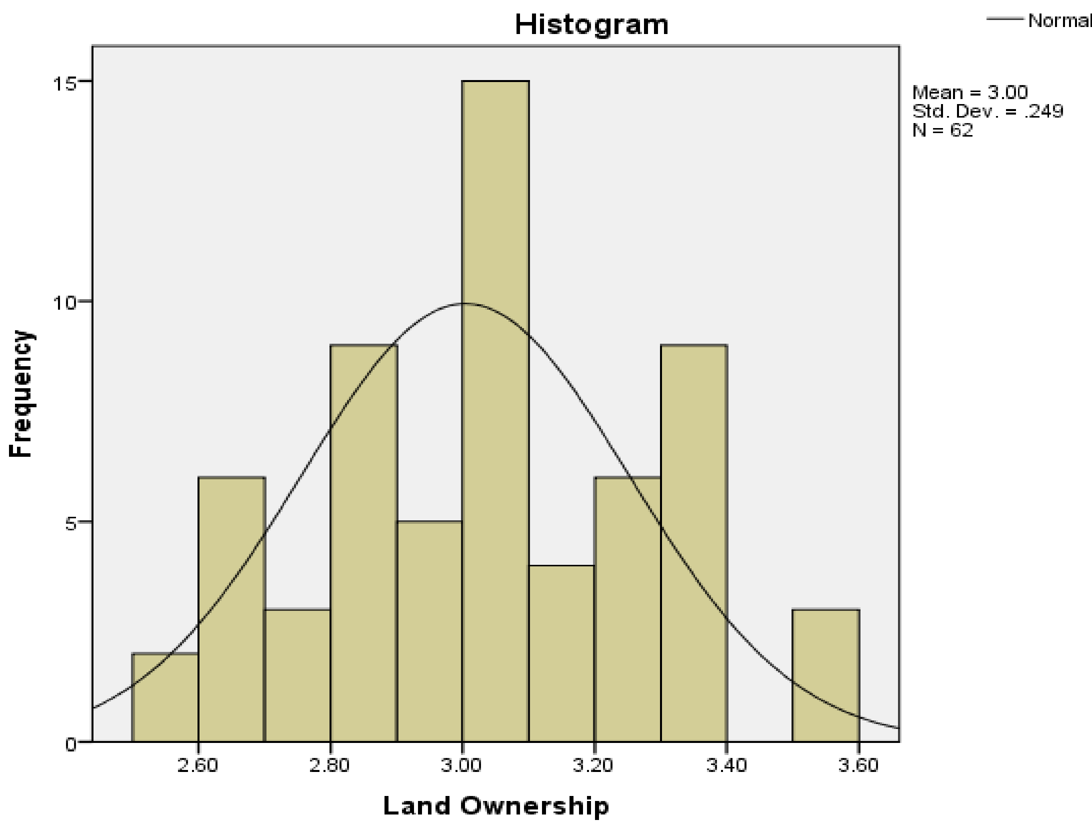
According to objective 4 in Chapter 2 above, the study wanted to establish how land ownership in the urban areas affects the access to housing financing for the urban poor. This was investigated using several factors and the findings were as per the table below;

Table 8: Effect of land ownership

Descriptive Statistics			
Indicators	N	Mean	Std. Deviation
Land possession leads to poor housing infrastructure	62	2.19	.786
Lack of ownership documents leads to lack of access to housing	62	4.24	.645
Land ownership affects financing access	62	4.05	.688
Substitutability of land affects access to financing	62	3.76	.783
Price of land in urban areas does not affect uptake	62	1.95	.688
Land availability does not affect housing access	62	1.85	.568
Average		**3.01**	**0.690**

Source: Research Data (2019)

Figure 6: Effect of Land Ownership



As per the table and graph above, there was a moderate feel on the effect of land ownership in the urban areas on the access to housing financing to the urban poor as shown by an average of the selected indicators (M = 3.01, SD = 0.69). Respondents however disagreed with the assertion that the price of land in urban areas does not determine the uptake of decent housing by the urban poor (M = 1.95, SD = 0.688). They were also of a dissenting opinion on the claim that availability of land does not affect access to decent housing by the urban poor (M = 1.85, SD = 0.568).

On the other hand, the respondents strongly agreed to the claim that lack of ownership documents hinders access to housing financing (M = 4.24, SD = 0.645). They agreed that land ownership status affects access to housing financing from MFIs (M = 4.05, SD = 0.688) and that substitutability of land with other collaterals affects access to housing finance by the urban poor (M = 3.76, SD = 0.783).

4.6 Diagnostic Tests

For the study results, diagnostic tests to determine the normality, multicollinearity and heteroscedasticity of the model were conducted. These tests used the Shapiro Wilk, the Variance Inflated Factor (VIF) and the Gleiser tests respectively. The findings were as discussed below;

3.4.4 Test for Normality

Shapiro Wilk was used to determine the normality of the model. The model is appropriate for sample sizes of up to 2,000 and was thus good for the study. The findings would be interpreted based on the p-value which would reflect normality if the p-value was greater than 0.05.

Table 9: Normality Test

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Access to Housing	.149	62	.001	.973	62	.194
Legal Framework	.144	62	.003	.969	62	.120
Interest Rates	.094	62	.200*	.977	62	.299
Income Levels	.134	62	.007	.977	62	.306
Land Ownershp	.151	62	.001	.963	62	.055

*. This is a lower bound of the true significance.
a. Lilliefors Significance Correction

Source: Research Data (2019)

Using the Shapiro-Wilk test which allows for sample sizes of up to 2,000, a normality test was conducted. The test affirms normality of the data distribution granted that the p-value is greater than 0.05. As shown in the table above, the p-values of all the five factors were all greater than 0.05, hence giving the conclusion that the study data was normally distributed.

4.6.1 Multicollinearity Test

A multicollinearity test was conducted to detect whether there was high probability of collinearity between the predictor variables in the model. Using the Variable Inflation Factor (VIF), the test checked if the VIF was greater than 10, which would mean a high multi-collinearity and also check for the Tolerance levels where a tolerance less than 0.1 would also represent high multi-collinearity.

The findings were as follows;

Table 10: Multi-collinearity Test on Independent Variables

Model	Collinearity Statistics	
	Tolerance	VIF
Legal Framework	.099	10.071
Interest Rates	.099	10.066
Income Levels	.955	1.047
Land Ownership	.953	1.049

Source: Research Data (2019)

From the above, the test discovered low tolerance levels with the legal framework (0.099) and the level of interest rates (0.099), less than 0.1. Additionally, the VIFs of these two factors were greater than 10 at 10.071 and 10.066 respectively. This implies high multi-collinearity between the two factors. In this regard, one factor, institutional legal framework, was dropped from the model. The other two factors; income levels and land ownership had Tolerance levels greater than 0.1 (0.955 and 0.953 respectively) and VIFs less than 10 (1.047 and 1.049 respectively) and thus fit for the model.

4.6.2 Heteroscedasticity Test

The Gleiser test was conducted to check for heteroscedasticity amongst the study variables. While checking for the p-value, the test would conclusively inform on the same. The findings were as in the table below:

Table 11: Heteroscedasticity

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.778	.392		1.982	.052
	Legal Framework	-.464	.251	-.723	-1.847	.070
	Interest Rates	.461	.244	.740	1.892	.064
	Income Levels	-.143	.073	-.249	-1.973	.053
	Land Ownership	-.031	.092	-.043	-.339	.736

a. Dependent Variable: AbsUt1

Source: Research Data (2019)

As shown in the table above, the p-value of all the factors was greater than 0.05 at 0.07 for legal framework; Interest rate had 0.064, income levels at 0.053 and Land ownership at 0.736. These findings prove that there is no heteroscedasticity in the data. The data was uniform with a consistent error.

4.7 Fitting the Model

As per the objectives, this study sought to establish the relationship between the four independent variables: interest rates, institutional legal framework, level of household income and land ownership in the urban areas. These were set up to determine their impact on the dependent variable; Access to housing financing for the urban poor. It was to define a suitable model to significantly represent the aforementioned relationship.

This was fully determined by conducting the correlation and regression analysis as discussed below;

4.7.1 Correlation Analysis

To determine the relationship between the dependent and independent variables in the model, a correlation analysis was carried out using the Pearson's product method and at 95% confidence level. The findings were as represented in the table below;

Table 12: Correlation Analysis

Correlations

		Access to Housing	Legal Framework	Interest Rates	Income Levels	Land Ownership
Access to Housing	Pearson Correlation	1	.270*	.320*	.373**	-.285*
	Sig. (2-tailed)		.033	.011	.003	.025
	N	62	62	62	62	62
Legal Framework	Pearson Correlation	.270*	1	.949**	-.070	.104
	Sig. (2-tailed)	.033		.000	.590	.423
	N	62	62	62	62	62
Interest Rates	Pearson Correlation	.320*	.949**	1	-.092	.081
	Sig. (2-tailed)	.011	.000		.475	.534
	N	62	62	62	62	62
Income Levels	Pearson Correlation	.373**	-.070	-.092	1	.179
	Sig. (2-tailed)	.003	.590	.475		.165
	N	62	62	62	62	62
Land Ownership	Pearson Correlation	-.285*	.104	.081	.179	1
	Sig. (2-tailed)	.025	.423	.534	.165	
	N	62	62	62	62	62

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data, 2019

From the table above, all the independent variables of the model were significantly related to the dependent variable (access to housing financing amongst the urban poor). This was as proven by the p-values which were all less than 0.05; Legal framework (r = 0.27, p = 0.033), Interest Rate (r = 0.32, p = 0.011), Income levels (r = 0.373, p = 0.003) and land ownership (r = -0.285, p = 0.025).

From the findings, level of income had the largest effect on access to housing financing and eventual house ownership by the urban poor (r = 0.373) followed closely by interest rates (r = 0.320) and land ownership (r = -0.285). Legal institutional framework had the lowest (r = 0.270).

4.7.2 Regression Analysis

As seen in the table below, multiple regression analysis was conducted to check if there is a significant relationship between the three independent factors (interest rates, income levels and land ownership) against the dependent variable (access to housing finance to the urban poor).

Table 13: Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.400	.673		2.082	.042
	Interest Rates	.525	.134	.397	3.936	.000
	Income Levels	.587	.125	.481	4.709	.000
	Land Ownership	-.622	.158	-.403	-3.944	.000

a. Dependent Variable: Access to Housing

Source: Research Data (2019)

As per the findings above, a model was deriving using the three independent variables (predictors) as follows;

$Y = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3}$ ………………………………… (i)

Where:

Y = this represents access to housing finance

β_0 = is a constant, which is the value of dependent variable when there are no other variables present

β_1 - β_3 = Beta coefficients of independent variables

$X_1 – X_3$ = Independent Variables affecting access to housing finance:

X_1 = Interest Rates

X_2 = Income levels

X_3 = Land ownership

From the above, we can fit the model as follows:

$\hat{Y}= 1.4+ 0.525 X_1 + 0.587 X_2 - 0.622 X_3$ …………………………… (ii)

Interpreted as;

Projected Access to housing financing ($\hat{Y}$) = 1.40 (constant) + 0.525 Interest Rates + 0.587 Income Levels - 0.622 Land Ownership.

The constant (1.40) in the model shows that access to housing financing will change by 1.4 units whether the explanatory variables are present or not.

As per the model, the independent variables in this case will have an impact on the access to housing financing to the urban poor as follows; A change in the interest rates will result in 0.525 unit change in the access to housing financing. A 0.587 impact will be experienced as a result of a unit change in the level of household income levels while a unit change in land ownership by the urban poor will result in 0.622 change in accessibility to housing financing from HMFIs.

From the model summary below, the coefficient of determination, R^2 is 0.421 or 42.1%. This means that the three variables collectively explain 42.1% of the factors affecting access to housing financing among the urban poor, with other factors having the other impact.

Table 14: **Model Summary**

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649[a]	0.421	0.391	0.29993

a. Predictors: (Constant), Land Ownership, Interest Rates, Income Levels

Source: Research Data (2019)

To test for the fitness of the model, an Analysis of Variance (ANOVA) was conducted with the findings as per the table below:

Table 15: **ANOVA**

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.791	3	1.264	14.047	.000[b]
	Residual	5.217	58	.090		
	Total	9.008	61			

a. Dependent Variable: Access to Housing

b. Predictors: (Constant), Land Ownership, Interest Rates, Income Levels

Source: Research Data (2019)

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter brings out the study findings, conclusions, recommendations and any further gaps realized which leaves room for further research.

5.2 Summary of Findings

The ability of the urban poor to access house financing from the housing microfinance institutions at reasonable terms is critical to owning own homes. This study sought to find out the challenges facing microfinance institutions in providing access to house financing by the urban poor in Nairobi County.

5.2.1 Effect of interest rates on access to house financing to the urban poor

The study sought to establish whether the level of interest rates affects the access to housing financing offered by HMFIs. From the study findings, the independent variables have an impact on the access to house financing to the urban poor with a change in the interest rates by 0.525 unit change in the access to house financing. It is therefore evident that interest rates are among the factors that will either result in increased access to funding or a reduction on the same. The general feeling was however moderate, but aspects such as consideration of borrowers' credit ratio being supported by most of the respondents. It was generally agreed that high interest rates hinder access to funding for the urban poor and also affects the overall financing costs to both the borrowers (urban poor) and the lenders (HMFIs).

5.2.2 Effect of the level of household income on the access to house financing to the urban poor

The study established significantly that the level of income in a household is a key factor in their chance at accessing funding for house ownership. It was clear that the higher the income then the higher the probability of accessing this funding as offered by HMFIs. From the model a 0.587 impact will be experienced as a result of a unit change in the level of household income levels in the access to house financing. Household income was also found to be a key determinant of the level of collateral required against the funds, which is normally a major hindrance as most of the urban poor do not have enough collateral to act as security against which they can borrow reasonable amounts.

5.2.3 Effect of land ownership in the urban areas to the access to house financing to the urban poor

From the study, land ownership proved to be a key aspect affecting access to housing financing with a unit change in land ownership by the urban poor resulting in 0.622 changes in accessibility to housing financing from HMFIs. Amongst its factors, lack of ownership documents and price of land in urban areas are some of the main bottlenecks affecting access to funds to the urban poor. Another land related challenge in urban areas is unavailability of the same due to overpopulation and shrinking land areas in towns. Projects sanctions also take several years, and need to be cleared by many government agencies and departments across the national and county levels, including the fire, environment, revenue and water departments and the traffic police. The consequent time and transaction costs deter many house entrepreneurs and lack of transparent and clear regulation aggravates the situation. For example, building by-laws, rules for floor space, and zoning and development plans of urban local authorities often lack clarity and there overlapping guidelines. Substitutability of land with other collaterals is also key in enhancing access to funds.

5.3 Conclusion

The study discovered that while access to funding especially meant for house ownership by the urban poor is critical for the nation's development, there exists hurdles which if well manouvred will greatly enhance access to funding and thus an increased ownership of decent housing for all. High interest rate levels, even with the moderate impact, will reverse this goal as shown by the study. Ownership of land is key in actualizing this and this also greatly depends on level of household income. Households with lower income will tend to prioritize more basic needs like food and clothing as opposed to owning a decent house.

5.4 Recommendations

5.4.1 Interest rates and how interest rates affect access to house financing to the urban poor.

In the study objectives, we sought to determine whether interest rates significantly affect access to housing funding. According to the findings, this among the key determinants in home ownership as it affects both the borrowers and the lenders. Lending rates in Kenya have previously being regulated by the government through the Central Bank regulations receiving mixed reactions. Based on this research, it is important for the government to prioritize and consider the HMFIs since they play a critical role in lending to the poor, who may not stand a chance with the major banks and finance institutions. By availing funds to HMFIs at lower interest rates or granting them tax rebates or holidays, they will in turn be able to offer cheaper financing to the urban poor and in the process offer the urban poor a dignified housing.

5.4.2 Income Levels and how income levels affects access to house financing to the urban poor.

Income levels at the household level was studied and found to be a significant factor on the access to housing financing. In this regard, it is critical, in order to bridge the housing gap among the urban poor, to increase the purchasing power across board so as to grant these marginalized groups a chance at decent housing. the right of the poor to equitable access to resources including land and shelter, housing rights to those living in sub- standard and poor living conditions especially in slums and the provision of adequate infrastructure and services to the poor and marginalized. These movements believed that shelter is a basic human right and all people should have access to shelter especially the homeless and disenfranchised community members who had no one to fight for them. While they advocated strongly on behalf of the poor for this equal access they soon realized that they needed to empower the poor economically for them to be able to access land and shelter.

They therefore, developed microcredit programs to support the poor to access serviced land and acquire shelter (Center for Urban Development Studies, 2000). Incomes from households can flow between household members and investments in assets like savings and housing. This can contribute to increases in the net income household incomes and could lead to further asset accumulation, labor and productivity and thereby strengthening the household economic security. Indicators at this level will be net household incomes, assets (including the value of houses and improvements) (Karlan and Goldberg, 2007, Nelson, 2000).

Financing costs, land prices and construction costs have increased, compounded by price appreciation of construction materials and labour making the situation worse for the urban poor. House financing is constrained because of different construction indices and incomes by households across the country. Households seeking house financing are faced with difficulties even those employed in the unorganized sector and have regular income because they lack income proof to access credit .This would be achieved through implementing government proposed minimum wages and through an overall improved economy.

5.4.3 Land Ownership and how Land affects access to house financing to the urban poor.

Land is considered as one of the scarcest resources in urban areas and with the few parcels available being priced beyond reach for the urban poor, it becomes one of the biggest challenge in their quest to a decent housing. This study showed the impact land availability, land pricing and lack of ownership documents of the same hinders the urban poor access to funding to set up own decent homes. There however exist large idle tracts of land which the government can consider for housing projects.

In Kenya, the Ministry of Land, Housing and Urban Development and the National Land Commission (NLC) are responsible for land administration in Kenya. Affordable housing being one of the four government pillars of growth in the president’s BIG Four agenda has stimulated arrange of interventions in terms of policy and regulatory framework in the housing sector. These legislations include sound planning responsive to household affordability, a reduction of construction cost through value chain in the construction sector, introduction of Kenya Mortgage Refinancing Company, administration in relation to land and form a title process to enhance access to well-located land.

The urban poor are pushed to the city peripheries due to inappropriate land policies and regulations, lack of land management and urban expansion policies that are central to handling the housing challenges. The government is the biggest owner of public land that has the greatest potential of narrowing the housing deficit despite that, the governments' potential to provide housing has increasingly been left to private sector driven approaches which the market has favored the high end housing at the expense of the low income earners. Through Public-Private Initiatives through innovative land-management tools need to be idle land and other resources can be deployed to unlock the potential of the government to avail land to selected urban poor communities who can then be funded to set up decent housing and curb the indecency in shacks.

5.5 Limitations of the Study

The researcher encountered various limitations that hindered access to information sought by the study. The researcher was solely depending on the institution employees and there might be some issues that uniquely affect the housing microfinance clients. These aspects might be missed out in this study.

5.6 Areas for further research

The focus of this study was to find out the challenges facing microfinance institutions in providing access to house financing to the urban poor in Kenya. The study only zeroed in on the HMFIs operating within Nairobi County. There might be some issues that uniquely affect the rural setting HMFIs and clients. Therefore, there is need for further study that captures challenges on both urban and rural microfinance institutions to establish whether there are similarities or differences.

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APPENDIX 1: Letter of Introduction

David Kieti Muthama

P.O. BOX 8078 00200

Nairobi – Kenya

Mobile Telephone: +254 724 882719

Email address: dkietid@gmail.com

Dear respondent,

<u>RE: DATA COLLECTION</u>

My name is David Kieti Muthama; I am an MBA (Corporate Management) student at KCA University. The questionnaire intends to seek your opinions with regard to various issues pertaining to the challenges facing housing microfinance institutions in providing access to housing financing to the urban poor in Kenya.

The researcher wishes to assure you that any information provided will be used purely for academic purposes and will be treated with utmost confidentiality. Any assistance accorded in filling this questionnaire will be highly appreciated.

I thank you

David K. Muthama

APPENDIX 2: Questionnaire

QUESTIONNAIRE

PART A: Background Information *(Tick where applicable)*

1. What is your gender?

   Male ☐ Female ☐

a. Name of institution ……………………………………………………………………

b. Name of Department ……………………………………………………………………

2. Designation

   Branch Manager ☐ Head of department ☐ Business Development Officer ☐

3. Years of experience in the institution (years)

   Less than 4 ☐ 4-6 ☐ 7-9 ☐ 10-12 ☐ Above 12 ☐

PART B: Institutional legal framework – Effect of Institutional legal framework on the access to housing financing to the urban poor in Kenya.

Please indicate the extent to which you agree with inadequate institutional legal framework as a challenge that affects the access to housing financing to the urban poor.

Use the scale where 5= strongly agree, 4=Agree, 3= Moderate, 2=Disagree, 1= Strongly Disagree

	Statements on Inadequate institutional framework	**1**	**2**	**3**	**4**	**5**
4	Inadequate institutional legal framework leads to limited access to housing financing by the urban poor					
5	Inadequate institutional legal framework leads to limited access to financing by MFIs					
6	Inadequate institutional legal framework leads to limited housing financing products by MFIs					
7	Institutional legal guidance has no impact on the capacity of Housing MFIs to provide housing financing products to the urban poor					
8	Adequate legal guidance and regulatory frameworks automatically increases the capacity of the urban poor to access housing finance					
9	Knowledge on the existing institutional legal framework does not affect access to afford housing by the urban poor					

PART C: Interest Rates - The extent to which Interest Rates affects the access to housing financing to the urban poor.

Please indicate the extent to which you agree with soft information as a factor that affects borrowing cost among your clients.

Use the scale where 5= strongly agree, 4=Agree, 3= Moderate, 2=Disagree, 1= Strongly Disagree

	Statements on Interest Rates	**1**	**2**	**3**	**4**	**5**
10	High interest rates are among the primary reasons that hinder the urban poor from accessing decent housing					
11	High interest rates to the housing micro finance institutions leads to low access to house financing products by the urban poor and vice versa					
12	Interest rates to the housing micro finance institutions do not affect the cost of house financing products to the urban poor and vice versa					
13	High interest rates to the customers leads to high default rates in housing financing loan repayment by the urban poor and vice versa					
14	HMFIs should not consider the credit ratio of the urban poor in consideration for access to funding					
15	Ceteris paribus (all factors held constant), interest rates are not a hindrance to access to decent housing by the urban poor.					

PART D: Income levels of Households – the extent to which Income levels of Households affects access to housing financing to the urban poor.

Please indicate the extent to which you agree with Income levels of Households as a challenge that affects access to housing financing to the urban poor.

Use the scale where 5= strongly agree, 4=Agree, 3= Moderate, 2=Disagree, 1= Strongly Disagree

	Statements on Income levels of Households	**1**	**2**	**3**	**4**	**5**
16	Regular income is a primary requirement by HMFIs prior to financing a housing projects for urban settlers					
17	HMFIs' inclination to provide housing finance for the urban poor increases with higher levels of income					
18	Income levels of households should not determine the collateral required to access house financing products					
19	The amount of funding to borrowers does not depend on their income levels.					
20	A household's level of income does not affect the willingness of the HMFIs to provide housing finance for the urban poor					
21	A household's access to affordable housing is not determined by its level of disposable income					

PART E: Land – the extent to which land ownership affects access to housing financing to the urban poor.

Please indicate the extent to which you agree with the Scarcity of land as a challenge that affects access to housing financing to the urban poor.

Use the scale where 5= strongly agree, 4=Agree, 3= Moderate, 2=Disagree, 1= Strongly Disagree

	Statements on Scarcity of land	**1**	**2**	**3**	**4**	**5**
22	Possession of land leads to poor housing infrastructure for the urban poor					
23	Lack of land ownership documents leads to poor or lack of access to decent housing by the urban poor					
24	Land ownership affects accessibility to housing finance from the MFIs					
25	Substitutability of land with other collaterals affects access to housing finance by the urban poor					
26	The price of land in urban areas does not determine the uptake of decent housing by the urban poor					
27	Availability of land in urban areas does not affect the access to decent housing by the urban poor					

PART E: Access to house financing by the urban poor

Please indicate the extent to which you agree with the following statements in regards to access to housing financing by the urban poor

Use the scale where 5= strongly agree, 4=Agree, 3= Moderate, 2=Disagree, 1= Strongly Disagree.

	Statements on access to housing financing by the urban poor	**1**	**2**	**3**	**4**	**5**
28	HMFIs have made adequate steps towards increasing access to housing financing by the urban poor					
29	There is enough information on available housing financiers by the urban poor					
30	Access to adequate affordable housing has been prioritized by finance institutions					
31	House ownership is a priority among the urban poor					
32	There are enough housing financing products in the market tailored for the urban poor					
33	There are enough HMFIs to cater for the housing finance needs of the urban poor					

END OF QUESTIONNAIRE – Thank you for your participation and contribution.

List of MFIS registered with AMIR-KE

	INSTITUTION	ADDRESS
1	Sidian Bank Ltd -Rep Centre,	WoodAvenue P.O BOX 25363-00603 NAIROBI
2	Equity Bank Ltd	Bank Equity Centre, Upperhill P.O BOX 75104-00200 NAIROBI
3	Co-operative Bank of Kenya Ltd	Co-operative Hse Building- 4th Floor P.O BOX 48231-00100, NAIROBI
4	Kenya Post Office Savings Bank	Market Lane, Postbank House P.O BOX 30311-00100 NAIROBI.
5	Kenya Women Finance Trust	DTM Upperhill, Kiambere Road P.O BOX 4179-00506 NAIROBI.
6	Rafiki Deposit taking Microfinance Ltd	Elroy Plaza, Tom Mboya Street, P.O. Box 66049 00800 NAIROBI
7	Faulu Kenya	DTM Ngong Road, Ngong lane P.O BOX 60240-00200 NAIROBI
8	SMEP	DTM Kirichwa Road, Kilimani P.O BOX 64063 NAIROBI
9	Remu DTM Ltd	Finance House, 14th Floor, Loita street P.O. Box 20833-00100 NAIROBI
10	Uwezo DTM Ltd	Park Plaza, Ground FloorP.O. Box 1654- 00100 GPO NAIROBI
11	Century DTM Ltd	New Pumwani Road K K Plaza,Gikomba
12	Sumac Credit DTM	Ltd Consolidated Bank Building, Koinange Street, 2nd Floor P.O. Box 11687-00100 NAIROBI
13	K-Rep Development Agency Ltd	K-Rep Centre| 7th Flr. Wood Av. Kilimani P.O. Box Box 10528 – 00100, NAIROBI
14	Blue Limited Chester House	Koinange Street P.O BOX 27749-00100 NAIROBI
15	Jitegemea Credit	Scheme Jogoo Road, KCB building P.O BOX 46514, NAIROBI
16	One Africa Capital	Ltd Koinange Street-Ratansi Educational Trust Building, 2nd Floor P.O. Box 74093-00200 NAIROBI
17	Canyon Rural Credit Ltd	Studio Hse,3rd floor P.O. box 46532-00100 NAIROBI
18	Yehu Microfinance Trust	Buxton Tom Mboya Street P.O BOX 82120 NAIROBI
19	Fusion Capital Ltd	ACK Garden house, Wing A, Ground Floor, 1st Ngong Avenue, Community next to Ardhi House

20	Opportunity Kenya	Geomaps Centre-Matumbata rd Upper Hill P.O BOX 19497-00202 NAIROBI
21	KADET	Capital Hill, Cathedral Road Community
		P.O BOX 1676-00200 NAIROBI
22	BIMAS	Bimas Complex P.O BOX 2299 EMBU
23	SISDO	Ngong Road, Ngong lane P.O BOX 76622-00508 NAIROBI
24	Micro Africa Ltd	P.O BOX 52926 NAIROBI
25	Eclof Kenya	Chiromo, Royal Offices, Mogotio Road P.O BOX 34889 NAIROBI
26	Youth Initiatives – Kenya (YIKE)	Kariobangi North, Sanoda Hse, 2nd Flr P.O. Box 50622-00200,NAIROBI
27	AAR Credit Services	Methodist Ministries Centre, 1st Floor Oloitokitok Road
28	Agakhan Foundation Microcredit Programme	Mpaka plaza, Westlands 3rd floor P.O BOX 13149-00100, NAIROBI
29	ADOK TIMO	Sifa House, Ground Floor, Mission Rd. Opposite Kibuye Market. KISUMU.
30	Pamoja Women Development Programme	Kikinga House, Kiambu Town P.O. Box 2472 – 00100 NAIROBI
31	Juhudi Kilimo Co.Ltd	Mucai Road, Ngong Road P.O. Box 10528-00100 NAIROBI
32	Musoni Kenya Ltd	Cape Office Park, Opposite Yaya Centre P.O. Box 25351-00100 NAIROBI.
33	Nationwide Credit Kenya Ltd	Trishul Towers, Next to Paramount Plaza P.O. Box 41873-00100 NAIROBI.
34	Fountain Credit Services Ltd	Ngong Road, near Kobil Petrol Station P.O. Box 72367-00200 NAIROBI.
35	Milango Financial Services	Rozina Building, Moi Avenue Street P.O. Box 99637-80107 MOMBASA
36	Credit Limited	Equity Plaza (Thika) 2nd Floor P.O. Box 6685-001000 THIKA
37	Molyn Credit Ltd	Bruce House 9th Floor Standard Street P.O. Box 10144-00100 NAIROBI
38	Greenland Fedha Ltd,	KTDA farmers building P.O. Box 30213-00100 NAIROBI
39	Select Management Services Ltd	Kenya Re towers, off Ragati Road P.O. Box 27639, 00506 NAIROBI
40	U&I Microfinance	Ltd 1st Floor,Asili Complex River Road ,Opposite Kampala Coach
41	Taifa Options Microfinance	Finance House, Kenyatta Highway P.O. Box 727, RUIRU
42	Renewable Energy Technology Assistance Programme(RETAP)	Waumini Hse, Westlands 1st Floor P.O. Box 28201-00200 NAIROBI
43	Rupia Ltd	View Park Towers, 10th Floor P.O. Box 2987-00200 NAIROBI.
44	Mini Savings & Loans Ltd Email:	Highway Building, Githunguri Town P.O. Box 874-00216, Githunguri, KIAMBU

45	Samchi Credit Limited	Parklands Plaza P.O. Box 16982-00620, NAIROBI
46	Focus Capital Limited	Donholm Mina Centre
		P.O. Box 2406-00202, NAIROBI
47	KEEF-Kenya Entrepreneurship Empowerment Foundation	Mapa House 3rd Floor Kiambu Road P.O. Box 648 KIAMBU
48	Women Enterprise Solutions	Development House, Moi Avenue P.O. Box 4083-00200, NAIROBI
49	Springboard	Capital Kensia House along Muranga road, P.O. Box 23720-00100, NAIROBI
50	Indo Africa Finance	Museum Hill Centre 3rd Floor, Museum Hill P.O. Box 39435-00623 NAIROBI
51	Biashara Factors	Finance House, 11th Floor, Loita Street P.O. Box 66065-00800 NAIROBI
52	Platinum Credit Limited	2nd floor, union towers, Moi avenue P.O. Box 73304-00200 NAIROBI
53	Ngao Credit Ltd	2nd Floor NHIF Bldg. Community P.O. Box 60776-00200 NAIROBI
54	Daranja Microfinance Bank ltd	Karandini Road, off Naivasha Road P.O Box 59485-00200, NAIROBI.
55	Chartis Insurance Company Ltd.	Chartis House, Eden Square Complex, P.O Box 49460-00100, NAIROBI
56	MicroEnsure Advisory Services	Hughes building, Kenyatta avenue, 8th floor P.O. Box 13383-00100, NAIROBI.
57	MESPT	2nd flr vision towers Muthithi Road, Westlands P.O. Box 187 Sarit Centre 00606 NAIROBI
58	Jitegemee Trust	K-Rep Centre, Wood Avenue P.O BOX 21768-00505 NAIROBI
59	OIKOCREDIT	Methodist Ministries Centre, P.O BOX 67181 NAIROBI

Source: AMFI-K Website(www.amfikenya.com)