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Contractor Finance Proposals
for
Nairobi African Housing

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CONTRACTOR FINANCE PROPOSALS FOR NAIROBI AFRICAN HOUSING

Phase I of the Nairobi African Housing Project at Ofafa was completed when the last of the 1,400 houses was handed over by the Government to the Nairobi City Council on 2nd February, 1959. This was a joint Government/City Council scheme and the value of the work is approximately £600,000; the money was found from the loan of £2,000,000 obtained by the Kenya Government from the Colonial Development Corporation and, as each batch of houses was handed over by the Government to the City Council, the latter became responsible for the equivalent value as a loan commitment to the Kenya Government. The second Phase of the same scheme, which was originally planned for 5,000 houses providing accommodation for 25,000 people, will begin in the near future when the same contractors who built the first Phase will commence the construction of another 500 houses. In this Phase the contractor has a direct relationship with the City Council on a tender basis; the money again comes from the Colonial Development Corporation loan through the Central Housing Board.

2. The original project for 5,000 houses had to be abandoned because the necessary finances were not available and because the cost of building proved higher than had originally been hoped. The placing of the second contract for 500 houses shows a definite fall in building costs, while the need for the full contribution that can be made by 5,000 houses to Nairobi's African housing problem is greater than ever. All the available statistics show that there is an acute need for additional housing in Nairobi, and Nairobi City Council still has 7,000 names on its waiting list. The social evils that can result from inadequate housing conditions are well known, and the Government feels that it is incumbent upon it to examine possible methods for financing the full scheme as it was originally planned, which will provide living space for a further 15,000 people.

3. Government, after consultation and agreement with the Nairobi City Council, has decided to endeavour to go forward with the project by methods similar to those used for the financing of the road programme. It is proposed, therefore, that tenders should be invited by the Nairobi City Council for the work of constructing these houses and their ancillary services, in the normal way. The approximate cost will be in the neighbourhood of £1½ millions. The contractors at the same time will be invited to provide the sources of finance, that is to say, they will find money for the carrying out of the work, which is likely to take three years. It is the intention of the Government and the City Council that none of the capital should be redeemed earlier than

a period of at least four years from the commencement of the work, which will carry the payment into the 1963-6 development period. Thereafter the money will be returned to the contractor over a minimum period of three years. An interest rate of 6 per cent is specified, and throughout the duration of the contract interest will be paid at this rate at six monthly intervals. These conditions are regarded as minimum conditions and a contractor who wishes to propose a longer period either of moratorium or redemption will be at liberty to do so and his proposals will be considered with the other factors.

4. The City Council will enter into a direct agreement with the contractor on the basis that is finally agreed, and the Government will guarantee the repayments of capital at the times to be specified. It is emphasized that a housing estate of this sort has the advantage of being a revenue-earning asset and the Government will not be required to find the full amount of the moneys spent by the contractors, since the City Council's collection of rents will already have begun to redeem the loan. Except at the very beginning of the scheme the interest on the loan will be covered throughout the rents. The interest paid during the period of construction will be capitalized. The rent structure will be designed so that the scheme is fully economic and will redeem the loan and meet all expenses in the running of the estate over a period of forty years. This is already the case with the first part of the scheme.

5. There are obvious dangers in using contractor-finance for any project i.e., to rely upon the same sources both for the finances and for the completion of the work, but it is felt that in this case there are adequate safeguards to any such dangers by reason of the fact that a form of open tender is being used in exactly the same way as if the Government was making the finance available itself, and in addition the Government has two examples of contracts reached after open tender conditions in the last two years, the second of them a very recent one.

6. In its present financial position the Government is unable to increase from its current development programme its contributions to housing, yet it is clear that the housing shortage in Nairobi, particularly for Africans, is acute. By using contractor-finance, which necessarily depends on the tenders and proposals of the contractors being satisfactory to the Government and the City Council, it is hoped to obtain valuable assistance in solving this problem now, whilst postponing the need for Government to find the money before the 1963 development programme. Ultimately the houses will pay for themselves. The new project also enables building to take place immediately when prices are generally lower than they have been, and the resulting activity should have a generally beneficial effect on the Colony's economy.

7. The exact amounts which the Government will have to find as loans to the Nairobi City Council to enable the City Council to make the necessary payments to the Contractor cannot be worked out until the contract has been let, but it is expected that the Government will have to find from its development programme approximately £450,000 in each of the years 1963, 1964 and 1965.

25th February, 1959.