

Consolidating inclusive housing finance development in Africa: Lessons from Kenyan savings and credit cooperatives

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Abstract

How can Sub-Saharan Africa consolidate inclusive housing finance development? Conventional urban economic approaches have had limited success for housing finance throughout the region. Community-based funds are a possible alternative to expand accessible and affordable financial services towards meeting the housing needs for lower-income and slum dwellers. We probe this approach using qualitative content analysis and quantitative data assessment methodologies, and analyse the unparalleled development of Kenya's financial cooperative societies, commonly referred to as savings and credit cooperatives (SACCOs). The article finds SACCOs are positioned to promote access to affordable housing finance in Kenya. The Kenyan experience with SACCOs has many commonalities with other countries in the region and can inform African policymakers seeking to strengthen their financial sector, especially in terms of housing credit.

Keywords: Community savings; Affordable housing finance; Savings and Credit Cooperatives (SACCOs); Credit unions; Kenya; Africa.

1. Introduction

Only 15.7 million households on the African continent can afford the typical house supplied by the market (Bah *et al.*, 2016). With the housing deficit, regionally estimated at 51.4 million units (Bah *et al.*, 2016), and an approximately \$2 trillion required to eliminate the backlog: the widespread shortage of affordable housing must be urgently addressed. Although many may perceive the issue simply in terms of production, a fundamental problem is providing an inclusive financing vehicle to give Africans an actual means to buy affordable, formal housing. Unequal access in financial services, and hence limited financing for the majority of Africans (Gwama, 2014), has made access to adequate housing difficult for many throughout the continent.

As Jane Jacobs theorized, a “housing crisis” occurs when there is profound “underinvestment” in shelter for lower-income and vulnerable households (Obeng-Odoom, 2015: 553). Today there is extensive underinvestment in housing throughout Sub-Saharan Africa. Moreover conventional housing finance solutions, through mortgage market development and housing microloans, have produced limited results for those seeking housing credit (Obeng-Odoom, 2013; Neverson, 2013). Alternative approaches to housing finance are critically needed to ensure adequate housing can become an affordable reality in Africa. The proceeding contributes to growing institutionalist scholarship on alternative finance mechanisms (Ojong and Obeng-Odoom, 2017). Community-based savings and credit organizations – whether of a public, private or hybrid variety – provide an endogenous means for the aggregation and delivery of capital for the many poorly housed and financially excluded from effective sources of credit.

Cooperatives are commonplace financial actors with the capacity to help meet the significant demand for the affordable housing needs throughout the region. In Kenya, the collective savings approach cooperatives employ is diverse and sweeping, making these institutions one of the most well-established economic actors in the country (Republic of Kenya, 1987). Kenyan financial cooperatives, known as Savings and Credit Cooperatives (SACCOs), are not only domestic financial leaders but exceptional by regional and global metrics. SACCO assets account for approximately half of Kenya’s gross domestic product; further these credit union societies’ rank among the top ten in the world for loan value in comparison with foreign counterparts (WOCCU, 2015).

Notwithstanding their well-developed and inclusive financing, cooperatives have been unable to provide substantial housing finance at a wider scale, both

in terms of end-user borrowers and residential development. SACCOs confront several issues, despite being one of the only sources of loans to the lower-income. Some of the challenges SACCOs face include low public confidence in such institutions and capital inadequacy in the provision of long-term capital for housing finance. Still there are relevant applications of SACCOs for consideration in Africa's housing finance sector development, especially in an inclusive manner.

This paper assesses community-based financing for housing and the merits of the Kenyan case in six sections. Section 2 summarises academic scholarship on financial cooperatives, including their benefits and challenges. Additionally, the section enumerates the research methodology utilized in assessing the development of Kenyan SACCOs as well as their applications in consolidating inclusive housing finance sector development in Africa. Next, section 3 provides a regional assessment of financial cooperatives in the African context, noting Kenya's distinct case in comparative terms. Section 4 specifically analyses Kenyan SACCOs and discerns the factors contributing to their exceptional development. Then section 5 examines SACCOs and their position to deepen housing finance sector development countrywide. Section 6 concludes Kenya's experience with SACCOs can provide a regional model in developing inclusive financing in Africa, particularly for housing.

2. Literature review and research methodology

Financial cooperatives, referred to as SACCOs in the East African context, are a longstanding topic in scholarship (Kyazze, 2010; Alila and Obado, 1990; Obuon, 1988). Customarily SACCOs are considered beneficial for communities, whether organized as self-help groups or employment-based collectives in places such as Cameroon, Malawi, Rwanda and the African diaspora (Ojong and Obeng-Odoom, 2017; Hossein, 2016; Graeff, 2009; Chipeta and Mkandawire, 1996).

Conventionally, SACCOs are regarded as having a valuable role in social and economic development with their "very effective savings mobilization" mechanism (Emana, 2009; Poulton *et al.*, 2006: 260). The pooling of collective financial resources at the community-level helps make SACCOs a cost-effective local institution in the provision to credit to low-income segments of communities (Satgar, 2000). As such, this financial model is recognized as capable in overcoming lending bottlenecks and helping alleviate poverty, particularly in Africa's rural areas (Regina, 2010; Patrick *et al.*, 2008; Temu, 1999; Mureithi, 1990).

Coinciding with the ascent of SACCO societies, beginning in the late 1980s in Kenya, research identified the community savings and lending model as a potential means to advance financial sector development (Alila and Obado, 1990). International donors have also recognized the capacity of SACCOs to be the “biggest providers of financial services” and overcome dependency on external capital financing (Rogaly, 1998: 26). Strong subsector development of SACCOs has the potential to bolster liquidity and help leverage increased private capital. The result would help deliver financial support for the needs of lower-income Africans and reduce strain on governmental financing across Sub-Saharan Africa.

In practice, however, SACCOs across Sub-Saharan Africa have had mixed-results. For example, in Uganda, opaque governance has been attributed as a key factor in the underdevelopment of SACCOs (Mutesasira *et al.*, 1998). Similarly, in Tanzania SACCOs have been hampered with “limited management capacity, poor supervisory and auditing capacities and a narrow understanding of members’ needs [and] rights” (Mutesasira *et al.*, 1998: 2). There is consensus in literature calling for reforms and modernisation in helping transform unsustainable SACCO institutions into financially viable community savings organisations (Seibel, 2000). Such improvements can build upon the comparative advantage SACCOs have in empowering lower-income households as well as small-scale entrepreneurs, especially women, across African communities (Bibby, 2006; Wright, 1999).

Despite the challenges, SACCOs continue to be recognised as “institutions which have had the most visible impact on the lives of many Kenyans” (Mugwanga, 1999: 10). Yet in scholarship, the nature of their national development as well as the role of SACCOs in housing finance, including their potential to expand access to adequate shelter, has been underdeveloped (Tomlinson, 2007). Research has mostly focused on the importance of financial cooperatives on commercial lending (Mumanyi, 2014; Bwana and Mwakujonga, 2013; Atieno, 2001). In addition, SACCOs have been overlooked and misunderstood as improper entities, often referred as semiformal or “informal sector groups” (Johnson and Niño-Zarazua, 2009; Ansah, 1999: 7). The marginalization has misled many on the critical function SACCOs have as a source of financing in incremental home improvement and land acquisition processes, markedly for the moderate-income as well as slum dwellers in urban informal settlements (Ramadhani, 2007; Otiso, 2003).

This study utilizes qualitative and institutionally focused research methodologies in assessing the historical development of SACCOs and applications for their housing finance capacity. The approach is justified as it has been successfully employed in other financial sector cases throughout Africa (Ojong and Obeng-Odoom, 2017; Hossein, 2016). Likewise, the research approaches provide an analytical means in quantitatively appraising the compatibility of expanding affordable finance in Kenya and the greater region. The content analysis examines financial sector and housing policy documents in analysing the current dynamics for SACCOs in the provision of cost-effective shelter credit. Additionally, interviews with multiple financial and public sector actors in housing finance reinforce and validate the research. The resulting data collection informs the study's findings on the merits of SACCOs as key providers of housing finance services for lower-income and vulnerable African households.

3. Appraising financial cooperatives in Sub-Saharan Africa

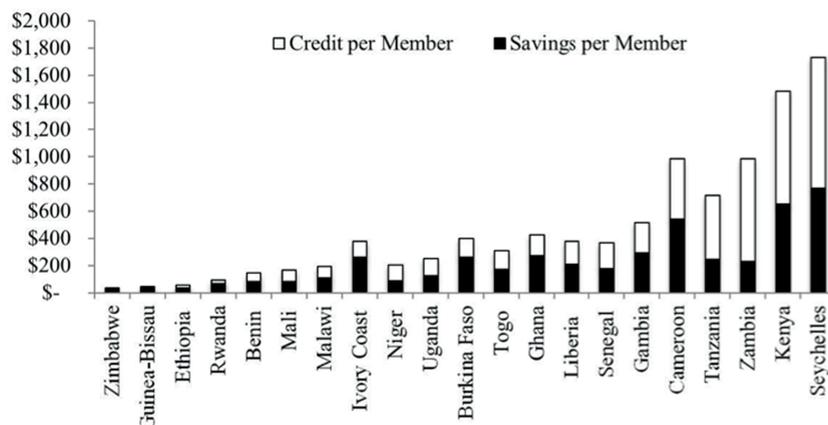
Cooperatives are extensive throughout the African continent. Specifically, in Sub-Saharan Africa, these organizations often start in communities, assembling membership based on common bonds, such as employment or spatial proximity within neighbourhoods. The cooperatives vary in their functions. Central, however, is their main purpose to aggregate resources through deposit-taking or material and labour contributions through non-deposit mechanisms.

Broadly there are two types of cooperatives. First, there are cooperatives organized with specific purposes. Members from these purpose-based cooperatives concentrate on specific objectives, such as agricultural marketing for produce and supplying farm inputs, transportation sector business investment or communal housing development.¹ Second, there are financial cooperatives, referred to as SACCOs, whereby members join to access banking services² depending on their personal interests. The SACCOs utilise savings and credit mechanisms to accumulate deposits and provide loans to their members. The ability of deposit-taking SACCOs to provide banking services enables African households to collectively save and promote access to inclusive financing regardless of their individual incomes.

¹ Agricultural, matatu and housing cooperatives are important components of the cooperative sector respectively in Kenya – both at present and in historical terms.

² SACCOs provide two essential banking services through front office and back office service activities, referred to as FOSA and BOSA respectively (Mutero, 2007). Such deposit-taking activities have provided a significant source of credit for SACCOs to channel member savings into loans.

FIGURE 1: DEPOSIT-TAKING SACCO MEMBERSHIP AND MARKET PENETRATION IN SUB-SAHARAN AFRICA, 2015



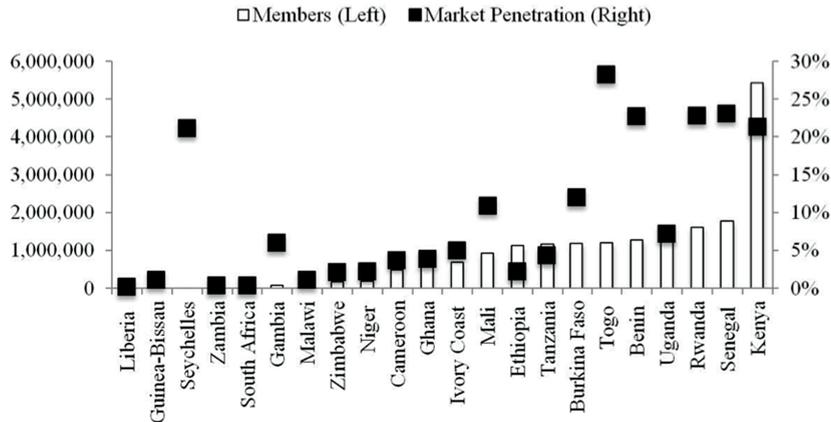
Source: Authors' compilation from WOCCU, 2015

The development of deposit-taking SACCOs throughout Sub-Saharan Africa is striking despite their regional prevalence. A modest 20 million Africans are estimated to be members of formal, deposit-taking SACCOs (WOCCU, 2015). Remarkably, Kenyans constitute 27.9 per cent of Sub-Saharan Africa's membership. As illustrated in Figure 1, Kenya's 5.4 million members make deposit-taking SACCOs the largest constituency in the region. The membership helps distinguish Kenya as having one of the highest rates of market penetration, especially compared to larger countries such as Ethiopia or South Africa (the latter has the most developed financial market on the continent).

Extensive membership and substantial market penetration have positioned Kenya's deposit-taking SACCOs with an effective savings base bolstering their provision of credit. As a result, Kenyan financial cooperatives mobilise the greatest amount of credit compared to other counterparts on the African continent per Figure 2. Such lending activities demonstrate the importance of Kenya's SACCOs as a "considerable part of the financial sector, savings mobilization and wealth creation" (Ototo, n.d: 2).

Besides discrete credit and savings measures, the savings-to-credit ratio for Kenyan deposit-taking SACCOs is relatively moderate compared to Zambia, Tanzania and other continental leaders in loan provision. This indicates the comparative effectiveness of Kenya's SACCOs in utilizing savings to provide member loans. Much work remains in determining the optimal financial risk ratio of African financial cooperatives. Such analyses would help contribute to the improvement of cooperative societies' financial soundness.

FIGURE 2: SAVINGS TO CREDIT RATIO PER MEMBER FOR DEPOSIT-TAKING SACCOs IN SUB-SAHARAN AFRICA, 2015³



Source: Authors' calculations from WOCCU, 2015

Beyond the region, Kenya's deposit-taking SACCOs are notable in the international context. These financial cooperatives rank among the top ten in the world in terms of loan value provision. From Table 1, Kenyan deposit-taking financial cooperatives provided \$4.5 billion in loans leveraged from \$3.5 billion in savings. This is notable as in 1972, the Kenyan cooperative sector had only \$157,000 (Ksh 16 million) in savings and 36,000 members (Republic of Kenya, 1987).

Sub-Saharan Africa's cooperative activities are substantial with deposit-taking SACCOs far-reaching throughout the region. However, Kenya's financial cooperatives are demonstrably continental leaders across metrics of membership, market penetration, savings and credit statistics. Furthermore, as Table 1 shows, Kenyan deposit-taking SACCOs globally, rank high in loan and savings value. The extent to which Kenyan SACCOs grew to be global and regional leaders can inform African counterparts, like Ghana (Boamah, 2010), and others in financial sector development to possibly achieve similar results.

³ These calculations are based upon the assumption member deposits and loans are equal. As a result, such figures may lower than reality as some members may cease active participation in their SACCO and others may have significantly accumulated deposits.

TABLE 1: GLOBAL COMPARISON OF DEPOSIT-TAKING SACCOs LOAN AND SAVINGS VALUE, 2015

Countries	Loan amount	Loan rank	Savings amount	Savings rank
United States	\$ 796,826,859,459	1	\$ 1,026,565,812,642	1
Canada	\$ 208,398,312,115	2	\$ 201,305,375,987	2
Australia	\$ 55,872,555,380	3	\$ 60,770,907,288	3
Thailand	\$ 47,899,000,000	4	\$ 22,801,000,000	7
Korea	\$ 37,153,666,604	5	\$ 53,272,682,478	4
India	\$ 33,116,823,712	6	\$ 50,663,251,304	5
Brazil	\$ 16,098,372,449	7	\$ 29,503,166,850	6
Ireland	\$ 4,545,653,219	8	\$ 14,128,676,953	7
Kenya	\$ 4,511,784,482	9	\$ 3,549,729,585	11
Colombia	\$ 3,826,752,585	10	\$ 3,722,860,849	10
Tanzania	\$ 545,000,000	28	\$ 283,000,000	40
Senegal	\$ 334,423,346	34	\$ 315,954,216	36
Cameroon	\$ 207,784,834	41	\$ 255,408,963	43

Source: WOCCU, 2015

4. Assessing the development of Kenya's SACCOs

SACCOs have helped make the Kenyan cooperative sector the most popular modern vehicle for resource mobilization and collective savings. In 2015, SACCOs made up 70 per cent of the cooperative sector; the total assets of the cooperative movement are \$9.6 billion (Republic of Kenya, 2015a; Wamaitha, 2017). The primacy of Kenya's SACCOs in domestic, regional and international terms is the result of several main factors. The factors are multidimensional as they are social, political, institutional and economic.

TABLE 2: MAIN FACTORS CONTRIBUTING TO THE DEVELOPMENT OF SACCOs IN KENYA

Reasons for SACCO development
1 Accessible and affordable lending in exclusive financial market
2 Societal proclivity for collective action and savings
3 Effective participation model favouring the local community
4 Central government backing
5 Conducive business partnerships

Source: Authors' analysis and evaluation of Kenyan SACCOs

The reasons outlined in Table 2 provide a means to assess and understand successful development of deposit-taking SACCOs in the East African country. These factors can assist other Sub-Saharan African countries in their aspirations to develop more inclusive financial sectors.

Across government, industry and civil society, the popularity of Kenya's SACCOs is largely attributable to the accessible and affordable credit they provide in a relatively exclusive financial sector environment (Republic of Kenya, 1987).⁴ The primary objective of SACCOs is to enable members to regularly save income for the purpose of collectively accessing credit facilities and they have enjoyed a degree of success in achieving these goals (Republic of Kenya, 1987).

The SACCOs have maintained low stable interest rates to suit their members' needs compared to mainstream financial institutions (Ototo, n.d). These financial cooperatives have been a significant source of affordable credit in Kenya at less than market rates through the dominant savings and credit component of the sector (Adler and Munene, 2000). As shown in Table 3, the interest rates on SACCO housing loans are less than those offered for the residential credit provided by commercial banks.

TABLE 3: AVERAGE BANK HOUSING LOAN INTEREST RATES IN KENYA

Financial institution	2010	2011	2016
Commercial banks	14.36%	16.36%	14.00%
SACCOs	12.40%	12.10%	12.00%

Sources: Republic of Kenya, 2015; Interviews with Kenya banking and SACCO officials

The inclusive decision-making process on the operation of cooperatives has contributed to the affordability of their financial services. Members have one vote each regardless of the size of their savings or debt holdings. As such, members determine the terms and conditions of their cooperative loans as well as interest rates on deposits, loans and investment decisions (Republic of Kenya, 1997). Comparatively, mainstream financial institutions are more conservative in their governance to optimize their business returns. This helps SACCOs provide more affordable credit than banks, especially at the community-level.

⁴ This attribution is based upon our semistructured interviews with the financial sector and civil society (Safaricom, 2016; STANLIB, 2016; KUSSCO, 2016; NACHU, 2016) as well as aggregated content analysis of cited government reports (Republic of Kenya Republic of Kenya, 1965; 1987; 1997; 2004; 2012; 2015a; 2015b; 2016).

Beyond providing affordable credit, SACCOs have historically been accessible to lower-income households. In the early history of Kenya, the prevalent agricultural cooperatives were often the only financial institutions in rural communities as banks were reluctant to open accounts for farmers due to their moderate incomes. As a result, cooperatives flourished in rural areas as centres for banking services in addition to their core marketing and bargaining activities for the communities' agricultural products. Organisationally, these cooperatives opened banking sections referred to as Union Banking Sections (UBS). Here farmers saved their incomes and would borrow credit to increase their agricultural production.

The accessibility of such financing – combined with the ubiquity of SACCOs in communities throughout Kenya – is why the majority of housing and land loans go through cooperative societies rather than banks (FinAccess, 2016). Agrarian cooperatives and their UBS, the precursors to SACCOs, were the only means for small-scale farmers to access credit for land at affordable terms. Similar to today, mainstream financial institutions provided credit, however, they were exclusive as borrowers had to have significant assets for loans – typically at high interest rates with burdensome transaction costs.

Subsequently, land financing became a dominant function of cooperatives for lower-income borrowers. Cooperatives would purchase large tracts of land for the purpose of subdividing them for individual member purchase. The communal nature of these transactions promoted cooperatives as critical institutions in assisting those conventionally excluded in becoming landholders. Additionally, the collective processes in land acquisition became a means for cooperatives to offer loans without a title deed, also called non-collateralised lending, to cooperative borrowers of lesser means.⁵

Although the nature of cooperatives in Kenya has changed, the purpose of these collective societies in enabling members to access credit to buy land, and eventually housing by extension, has remained. The shift in member participation from agricultural cooperatives to SACCOs grew in the mid-2000s, despite both having tracked closely in the early 1990s (Wanyama, 2007). The significant increase in non-agricultural cooperatives principally reflects an urban shift in Kenyans' growing financial needs away from agricultural activities. It also highlights the widespread utility members, and the broader Kenyan society,

⁵ Based on authors' professional work and experience, non-collateralised lending mechanisms are critical towards achieving affordable and inclusive housing, especially in instances where borrowers' lack proper land documentation such as in informal settlements.

identify with financial community-based groups beyond the constraints of the purpose-based cooperative alternatives. And finally, it underscores Kenyan society's long developed social acceptance of collective activities.

For members to participate in cooperative activities such as joint savings and communal land purchase, social trust has been paramount to ensuring the functioning of these organizations. The strong disposition of the Kenyan people towards collective action and pooled savings has proved fundamental to the development of SACCOs. More than half of Kenyans derive part of their livelihood either directly or indirectly from cooperatives (ILO, 2009; Republic of Kenya, 1987). Kenyans have long practised community cooperation and actively participated in local self-help processes. The tradition precedes the formation of the first cooperative in 1908, which was exclusively for white dairy farmers, under the British Empire during the East Africa Protectorate (Republic of Kenya, 1987).

Communities, across Kenyan ethnic groups, have mobilized through self-help groups to jointly satisfy social and economic needs (Kanogo and Maxon, 1992; Ouma, 1988). These self-help groups precede colonialism and operate similarly to cooperative societies. When mutual agriculture work was needed during “periodic shortages and hardships” or instances when support for funerals and child birthing were required, community groups would form to support their neighbours (Kipkebet, 1993: 17). Such reciprocal activities have helped enable the strong historical development of financial cooperatives.

Building upon community cooperation and local self-help processes, President Jomo Kenyatta politically built upon the country's rich experience (Cowen and Shenton, 1993). After achieving independence in 1963, the first president launched the “Harambee” movement – Kiswahili for “Let's pull together” to specifically unite and develop the country by pooling money, land, and other community resources through reciprocal activities at the community-level. The Harambee movement underscored the importance of mutual assistance and joint collaboration as a means of meeting local economic and social needs. Cooperatives were an extension complementing Harambee at the local and national level.

While historically focused on joint action for communal tasks, self-help groups – similar to agricultural cooperatives – eventually engaged in collective activities to save, lend and invest. These financial activities started informally and have persisted to date. Chamas⁶ are one example of popular unregulated

vehicles where members with close bonds periodically gather to collect savings for the purpose of lending and investing their wealth. Similar to SACCOs – the formal counterpart of chamas – resulting gains and losses from business activities are shared among chama members. Those contributing financial resources share the resulting economic benefits among members.

Chamas employ several savings and credit mechanisms. Table banking is one means in addition to the rotating arrangement known as the merry-go-round approach where members give the collected proceeds of a meeting to a designated member. Although less common than the merry-go-round approach, all members still contribute a certain amount at periodic meetings. Rather than disbursing the collected amount, the funds are collectively saved by the group to eventually provide loans to members until available funds are exhausted. Through table banking, the interest rate on chama loans can be as high as 20 per cent in some cases. However, these interest rates provide an additional revenue source in which the accumulating savings and group lending activities have revenue income from the provision of member loans and can therefore grow their core funding.

The success of chamas in financial empowerment reflects the appeal of these groups, including SACCOs, to the Kenyan society. Despite many chamas typically failing before making substantial gains, several have grown to become significant sources of wealth, even financial institutions in some cases (Bett, 2014). For this reason, chamas have been commonly viewed as “a sure path to financial freedom [...] for the longest time” (Bett, 2014: 1). The chamas’ popularity has helped mobilize members from across Kenya to formal cooperatives for financial purposes.

SACCOs, regulated by the government through the Ministry of Industry, Trade and Cooperatives as compared to the unofficial nature of the chamas, have enjoyed widespread participation throughout Kenya. These financial cooperative societies have been sustained through their accessible provision of affordable financing. They have been further buttressed with strong social proclivities towards collective action and savings. Additionally, the orientation of SACCOs at the local-level has mobilized increased membership among those with shared values. The purpose has been to overcome national government bottlenecks and provide tangible results at the neighbourhood-level.

⁶ Directly translated from Swahili as associations, chamas are colloquial term for investment groups. They are considered informal as they operate outside the government’s oversight on banks and SACCOs.

As a result of liberalisation in the mid-1990s, any Kenyan can voluntarily join a cooperative and become a member (Wanyama, 2007). Previously SACCOs were legally mandated to require members have similar backgrounds, for instance labour groups or religious institution affiliation. However, following reforms, SACCOs were permitted to accept members regardless of affiliation. The change in membership requirements has helped remove restrictions that impede cooperative growth. Specifically, it has helped aggregate SACCOs into some of the largest financial institutions in Kenya.

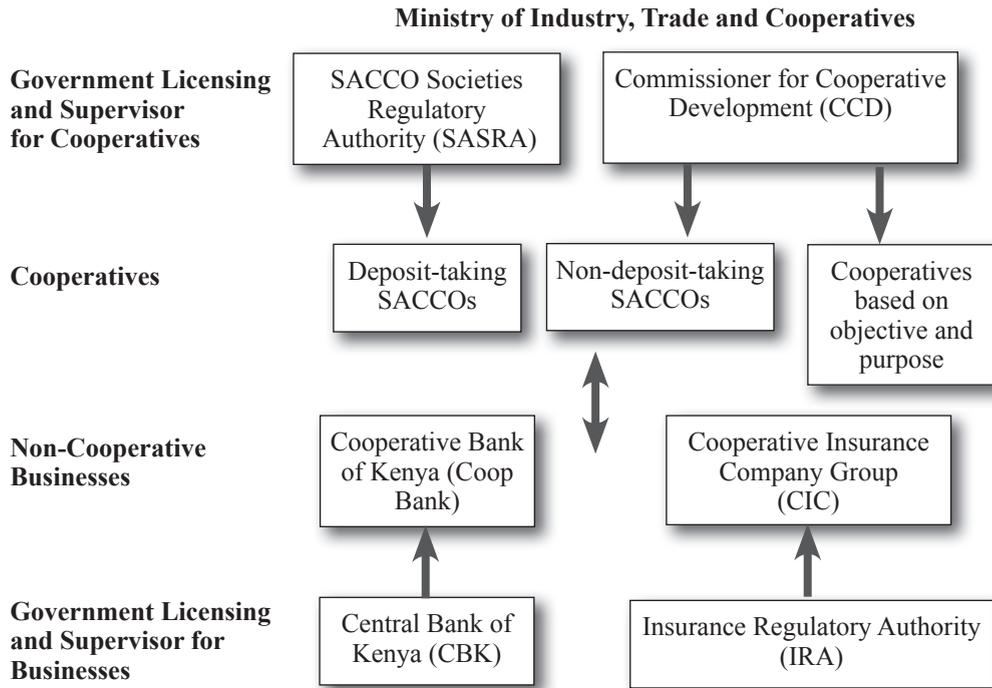
Many Kenyan SACCOs, however, are localised notwithstanding the legal removal of the close bonds requirement for membership. The assembly of SACCO members by the local communities mirrors similar groupings, as seen in political parties and certain industries. Such divisions have hindered cohesive Kenya's development and prevented the successful operation of many government programs and institutions.

In contrast, financial cooperatives have benefitted with the promotion of self-help solutions. The increased participation of local communities has enabled SACCOs to aggregate savings at a significant subnational level and thereby bypass the ineffective and disparate provision of public sector services and benefits. Ultimately, SACCOs have been able to assist SACCO members and communities in financial terms, albeit unevenly from a national prospective.

The central government has encouraged full involvement of Kenyans in cooperatives throughout the country's history. Particularly, the government has viewed active cooperative participation as not solely beneficial to the country for economic benefits, or "not an end in themselves", but also to advance the social welfare of members and national development through poverty alleviation (Republic of Kenya, 1987: 3). The fundamental belief of the national government has been that cooperatives promote self-help solutions and therefore complements public sector efforts to improve the overall welfare of Kenyan society (Republic of Kenya, 1965; Republic of Kenya, 1987).

The Kenyan government has actively provided political and policy-based support since the country's independence. The central government's backing has helped make the cooperative industry "the prime [economic] mover" in the country (Republic of Kenya, 1997: 17). The consequence of consistent government support has been substantial growth that has, in turn, further strengthened Kenya's cooperatives.

FIGURE 3: PUBLIC-PRIVATE SECTOR INSTITUTIONAL ARRANGEMENTS FOR KENYA'S SACCOS



In helping develop the cooperative sector, the Kenyan government integrated cooperative principals at inception into its national policies by applying the country’s foundational ideology of African Socialism⁷ to Kenyan-ize the economy (Republic of Kenya, 1987). The result of these policies has been several government bodies to support the cooperatives. Institutionally, the Ministry of Cooperative Development – now the MoITC – was created after Kenya’s independence to promote society development and oversee cooperatives per Figure 3. In the late 1990s, the government reduced its role in the cooperative movement to only facilitate the guidance of the sector through policies and regulations. This meant that the government had no direct involvement in the cooperative movement.

Liberalisation of the cooperative sector led to splits and mergers resulting from high levels of maladministration and political interference. When mismanagement and economic factors led to a significant downturn of SACCOS

⁷ African Socialism is a belief system popularized by leaders in decolonised Africa. The core precepts are based on sharing economics resources through the people and community.

in the early 2000s – and eroded public confidence – the government reasserted its management and regulation of the sector through the reorganization and creation of additional government organizations.

Following the government's incremental involvement in regulating the sector in 2003, the *2008 SACCO Societies Act* further institutionalized involvement with the creation of the SACCO Societies Regulatory Authority (SASRA) as the licensor, regulator, supervisor and promoter of deposit-taking SACCOs under the government (SASRA, 2015). SASRA's role, including its status as a semi-autonomous government agency, has helped improve the performance of SACCOs, although additional progress remains (Ngaira, 2011).

Aside from public sector architecture supporting SACCOs, the financial cooperative subsector has actively cultivated private sector partnerships to strengthen its activities. Prior to Kenyan independence, cooperatives confronted issues related to financial exclusion from mainstream banking institutions. With support of the apex organisation, called the Kenya National Federation of Co-operatives (KNFC) at the time, as well as the national government, societies jointly mobilized resources to start their own commercial bank in 1968. The Cooperative Bank of Kenya (Co-op Bank) amplified much lending and investment in the sector. Concurrently, KNFC launched insurance services for cooperatives and member households. The company today is referred to as the Cooperative Insurance Company Group (CIC). With Co-op Bank, CIC and other external business organizations to the cooperative sector, SACCOs have been strengthened through institutional partnerships to expand the provision of their services to the private sector as well as government.

Together with economic, social, political and institutional factors, Kenya's SACCOs have developed as leaders within the Kenyan context, in regional and international metrics. The development experience of financial cooperatives through mobilization of savings towards affordable credit and investment can inform those within and outside of Kenya seeking to further consolidate their financial sector in an inclusive manner. Principal among reasons to strengthen the financial sector is the critical need to bolster affordable access to housing throughout Kenya and Sub-Saharan Africa.

5. SACCOs and consolidated housing finance sector development

Kenya's cooperatives have a critical role in helping members obtain shelter (Baitu, 2010). Cooperatives organise members to collectively purchase shares and enable the purchase of land and construction of housing. In the localised

variety of these organisations, once members are housed in detached units, the housing cooperative typically is dissolved.⁸ For multifamily units, many of the larger housing cooperatives reduce their activities following development, focusing mostly on property management and upkeep. The result is the scaling back of technical means to continuously renew and expand housing efforts to those outside the housing cooperative organisation.

Despite the seemingly pragmatic approach to expanding shelter access, housing cooperatives have been relatively static in their development (Republic of Kenya, 2015). The comprehensive approach to the housing value chain these cooperatives undertake often overwhelms going beyond the capacity of these societies. The shelter cooperatives must have finance, land acquisition, design, and construction expertise – not to mention project management skill – to adequately deliver housing units for their members. And the capital-intensive nature of housing adds another constraint to housing cooperatives' growth and impact as well. Analogously, SACCOs with their comparative specialisation in finance and investment have achieved greater success in housing finance and to a lesser extent through residential development or housing unit delivery.

Members predominantly engage SACCOs on housing and real estate through financial loans or investment. Investment is channelled through cash flow derived from member purchase of shares in the cooperative. As members seek optimal returns on their investments, commercial and residential real estate has been a popular option for SACCO portfolio holdings. In terms of housing, investments from SACCOs are estimated to generate approximately 8,000 to 10,000 housing units annually in Kenya. This constitutes one-fifth of housing delivery overall in the national market.

SACCOs have important limitations similar to those of housing developers and mainstream housing finance institutions. Most of these SACCOs invest in housing units targeted at the affluent consumer market segment. These residential developments are important as Kenya confronts a staggering shortage in adequate housing, throughout its cities.⁹ Yet, the delivery of high-end units to the market means SACCO investments are not directly contributing to affordable housing stock. Without enough housing unit delivery for the moderate and low-income,

⁸ Oftentimes community-based housing cooperatives are disestablished. National-level housing cooperatives continually focus on the development of such shelter societies throughout Kenyan communities.

⁹ The annual deficit of close to 200,000 units adds to a palpable 2.5 million total housing unit deficit for the country (Oltichil'lo, 2015).

housing demand goes unaddressed and further exacerbates house prices. The result is formal housing supply continues to be too expensive for the majority of Kenyans.

As a Zambian residential developer stated: “[t]he problem with housing is not building it, [...] [t]he problem is allowing the people, who want the houses, the financing capacity to buy them” (UN-Habitat and Cities Alliance, 2011). Similar to other countries throughout Sub-Saharan Africa, there is a significant lending bottleneck in Kenya’s housing finance market. Only 15 per cent of Kenyan credit products were for housing and land in 2016 (FinAccess, 2016). Despite limited residential lending, the World Bank has estimated SACCOs finance 90 per cent of housing in Kenya (Xinhua, 2017). When Kenyan borrowers do use loans for the purpose of acquiring housing and land, commercial banks and SACCOs comprise over 80 per cent of such transactions (FinAccess, 2016). In terms of end-user housing finance, SACCOs have had significant success.

Regardless of the significant role SACCOs play in communities and the financing of housing in Kenya, their potential “has not been fully exploited” (Republic of Kenya, 2004: 32). Furthermore, given how extensive cooperatives are in Africa – as illustrated in section 3, the conditions are feasible towards promoting access to housing finance throughout the continent. SACCOs have undoubtedly been an effective tool in mobilizing people and resources towards community-based credit, especially for vulnerable and lower-income Kenyans across urban and rural areas. Recently, the Kenyan government has said close to 14 million Kenyans are members across the country’s 22,000 SACCOs (Wamaitha, 2017). However, despite there being tens of millions of members with billions of dollars in assets, the potential for housing finance remains relatively unexplored and underdeveloped.

The strengths and weaknesses of the SACCO model must be assessed in order to bolster housing finance efforts. SACCOs can provide an innovative way for slum dwellers, an estimated 60 to 70 per cent of Nairobi’s inhabitants (APHRC, 2014), to affordably achieve formal housing. Already cooperatives have transformed the informally employed through the organization of workers and persons with close bonds into community-based groups (Gatuguta *et al.*, 2014).

Through the member-based management system of these community organizations, SACCOs have the potential to design and successful offer non-collateralised communal housing loan products. By encouraging cooperatives to devise group housing credit programmes for the informal sector, SACCOs can build upon their strong tradition of having low non-performing loans, oftentimes

less than 5 per cent of total liabilities, to help provide mutually beneficial loans for informal borrowers and community-based lenders alike.

Customarily, mainstream financial institutions have applied conservative lending standards that exclude those without proper title or deed to the underwritten property. A common precept is that the lower-income are more at risk to default. As illustrated through the Kenyan SACCO experience, non-performing loans or NPLs have been found to be as low as 5 per cent. As such, given the communal ownership mechanism SACCOs can employ, it is possible to structure housing finance loans to be profitable and assume repayment from slum dwellers as borrowers.

Lenders, SACCOs and commercial banks alike, may be reluctant to provide housing finance to the low-income or slum dwellers given the risk of borrower non-repayment. However, with successful design of collective housing loan products targeting informal settlements, this can be overcome. The broad-based participatory structure of SACCOs can potentially enable successful group housing finance products: whereby there is collective pressure for SACCO member-borrowers to repay the obligations on the loan.¹⁰ While this approach does require SACCOs to obtain the proper title in order to regularize slum housing, there is significant opportunity for the majority of Kenya's households living without secure tenure to own formal housing (Cacnio, 2009; Hendriks, 2008).

As cooperatives develop and implement government-mandated action plans in consultation with community stakeholders, SACCOs must assess the ways to strengthen community savings to promote financing towards affordable housing (Republic of Kenya, 2004). The Kenyan government has explicitly called for cooperatives to “step-up their efforts several folds to ensure that the present untenable housing situation is contained” (Republic of Kenya, 2004: 43). From the government's perspective, this will allow the cooperative sector to meet the government mandate in providing 25 per cent of Kenya's annual housing demand under the social pillar of Vision 2030 (Gatuguta *et al.*, 2014). Such efforts by cooperatives could help contribute to the government's ambitious goal to deliver 150,000 housing units in Kenya's urban areas (Republic of Kenya, 2012).

¹⁰ For example, community savings groups – similar to those in the Community Mortgage Programme in the Philippines – can be organised in informal settlements whereby members organise themselves in Community Associations of a maximum of 300 members per association. The Community Associations would then borrow collectively to finance land acquisition and later site improvements loans or housing construction loans (Cacnio, 2009).

6. Conclusion

Financial markets throughout Sub-Saharan Africa are exclusive, leaving behind lower-income households, including the many living in informal settlements. Conservative banking practices have resulted in few accessible financial services for the many. Despite this reality with mainstream financial institutions, financial cooperatives have provided a means for those with moderate assets or irregular tenure security to make deposits, purchase investment shares, grow their savings, and obtain credit at affordable terms.

This study sought to demonstrate a feasible approach to consolidating housing finance sector development in Sub-Saharan Africa. Savings and credit cooperatives (SACCOs) have the capabilities to advance financial sector development in an inclusive manner that can be profitable for all actors involved. Such capabilities can help Africans legitimately meet their shelter needs in affordable, formal housing.

As demonstrated in the case of Kenya, SACCOs have achieved a considerable amount using quantitative data assessments. Whether in terms of membership, communal governance, market penetration, savings aggregation and credit provision – the Kenyan experience with SACCOs has attained regional and international recognition across these metrics. Further, Kenyan financial cooperatives continue to provide affordable loans below the competing interest rates of commercial banks.

The success the SACCO subsector has accomplished is attributable to economic, social, political and institutional factors. As previously indicated, the credit provided by these cooperative societies is affordable: undercutting loan terms of mainstream financial institutions. Affordability is reinforced by the accessibility of SACCOs and their precursor organizations, particularly agricultural cooperatives and UBS, throughout the country across urban and rural areas. The inclusive nature of SACCO financial services has developed through a longstanding social history of collective action at the local and tribal levels. Kenyan society's receptiveness towards communal cooperation has been additionally reinforced by the national government through political and policy support. Simultaneously, in addition to the national government, SACCOs have built beneficial institutional partnerships with the private sector.

The success Kenyan SACCOs have attained in their subsector development can inform efforts to strengthen the affordable provision of housing finance, whether in the domestic or regional context. For instance, the Kenyan SACCO

experience can inform the restructuring and formalization of the proposed Community Mortgage Cooperatives or CMCs in Ghana (Boamah, 2010). The community governance principles can also contribute to collective action on housing, as illustrated in Ethiopia with the Integrated Housing Development Programme or IHDP particularly with the regional condominium management system among tenants and homeowners (Adamu, 2012).

The prominent role SACCOs have in both end-user financing and investment, albeit to a lesser degree, in the housing sector present potential demand and supply-based solutions. Mobilizing community savings through solutions targeting affordable housing demand and supply can overcome national and local government shortcomings and improve socioeconomic development: especially in terms of poverty reduction and employment generation through the construction and upgrade of inadequate units (Republic of Kenya, 2004; Wanyama *et al.*, 2008). Such approaches provide a tangible means to initiate socioeconomic renewal in communities and further sustainable development, especially in urban neighbourhoods and informal settlements.

SACCOs are not the singular solution to consolidating inclusive housing finance sector development. These collective societies have confronted issues related to mismanagement and insufficient capital for long-term housing finance. Much work remains to be done related to the effective operation of financial cooperatives. However, SACCOs present a promising means that deserves further research and analysis related to the strengths and weaknesses of the model in providing accessible and affordable credit to low-income households.

There is no doubt the lack of accessible and affordable finance limits sustainable development, including for housing finance in Kenya. As one SACCO managing director said: “people would rather eat less and have shelter” (KUSSCO, 2016). Accumulating savings in an unaffordable, formal housing market delays – if not prevents – households from having the budget to invest in themselves and expand upon improvements to their livelihoods. Gradual savings alone in an unaffordable housing market is not a solution and presents a serious constraint on sustainable development. Africa requires the development of inclusive housing finance approaches as well as strategic investment in affordable housing stock that will enable lower-income and vulnerable Kenyans to access housing. SACCOs provide a means to potentially fill these gaps.

SACCOs have the potential to unite people of varying levels of need towards resolving housing challenges in their communities. Lessons learned from

the Kenyan experience can strengthen the mobilization of community funds towards housing throughout Sub-Saharan Africa, especially because – as we saw in section 3 – the conditions for success in Kenya are pervasive in Sub-Saharan Africa.

These experiences can serve as a regional finance model and inform African policymakers seeking to strengthen their financial sector, especially in terms of community housing credit to fundamentally reject the mainstream urban economics view that there is no other way to obtain affordable housing except through conventional mortgage finance and microcredit.

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