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Financing Housing
through Savings and Credit Cooperative Societies
in Kenya

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by:

Cooperative Housing Foundation

and

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CHF

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Preface

In May 1988, the Cooperative Housing Foundation (CHF) was given a grant by the East and Southern Africa Regional Housing and Urban Development Office (RHUDO/ESA) to undertake a study that would look at whether the credit union system in Kenya could play a greater role in providing housing finance for those not able to secure loans from established housing finance institutions. RHUDO's intent in commissioning the study was to seek new ways of extending resources for housing into the informal sector and CHF's assistance was sought in this matter because of its experience in designing such programs elsewhere in the world. At the same time, RHUDO/ESA contracted with Matrix Development Consultants, located in Nairobi, to provide the perspective and context of the Kenyan situation.

The study was undertaken jointly by CHF and Matrix, based on Terms of Reference provided by RHUDO/ESA, and carried out largely in Nairobi. The report was written in Nairobi, reviewed with relevant interested parties in Nairobi and revised in Washington in July 1988. In December 1988, CHF was provided written comments of numerous reviewers. This revised report reflects the input and observations of these reviewers.

EXECUTIVE SUMMARY

A. Overview Proposed Pilot Project

As an integral part of the Kenya Private Sector Housing Program, the government of Kenya's National Housing Corporation and AID's Regional Housing and Urban Development Office for East and Southern Africa (RHUDO/ESA) have agreed to target up to $3 million of the $30 million in available Housing Guaranty Program financing to address the housing needs of the "informal sector."

The Cooperative Housing Foundation (CHF) and Matrix Development Consultants were asked by RHUDO/ESA to assess the potential role of Kenya's savings and credit cooperative system in extending housing credit to low-income households as a possible means for disbursing the earmarked $3 million and reaching families living and/or working in "what is traditionally classified as the informal sector.[1]

This report of the CHF/Matrix study undertaken in May 1988 recommends that a pilot project be established with the $3 million to be administered through the credit union system of Savings and Cooperative Credit Organizations (SACCOs). This project would extend the lending capability of SACCOs in housing through the establishment of a Housing Development Revolving Fund (HDRF). The intent is to build upon the existing capacity and momentum of these institutions with a minimum of additional requirements.

Pilot implementation of the HDRF may well lead to the establishment of a permanent, more plentiful fund at a later date. However, given the limitation of the earmarked resources and the necessity of testing some basic assumptions with regard to this approach to enhancing housing supply, it is necessary to approach the pilot effort as a controlled, carefully monitored experiment.

B. Findings and Recommendations

1. Findings

- The growth of SACCOs in Kenya has been rapid and successful.
- Within the overall context of rapid SACCO growth, there has been significant and apparently increasing SACCO lending for housing purposes: in 1986, for example, SACCOs lent at least Sh 2,600 million ($152 million) for housing purposes (This number represents 70 percent of the Sh 3,740 million in new loans made during this year).

[1] Terms of reference are included at Appendix 1.

Constraints to expanded lending for housing purposes are primarily two: the loans are short term (up to three years) and they are made for relatively small amounts (maximum of three times the borrowers' shares and savings deposits).

- SACCOs are nearly all based on institutional employment, thus excluding those working the informal sector. It is now government of Kenya policy to promote SACCOs in the informal sector.

- Based on considerable interviewing in the field (see Appendix), it seems apparent that the SACCOs would be willing to enter a program that would expand their lending capability in the housing sector, as is the apex society KUSCCO. Financial and managerial capacity of the SACCOs to enter such a program, however, varies considerably among them and KUSCCO has itself undergone reorganization and its management capacity is untested for this type of activity.

- At the present time, extending the capacity of the SACCOs would not significantly expand the housing lending available to those who work in the informal sector.

2. <u>Recommendations</u>

Based on the findings, it is recommended that the Government of Kenya use the earmarked $3 million to establish a pilot project, Housing Development Revolving Fund (HDRF) from which selected SACCOs would be eligible to borrow money to lend to their members for housing purposes.

- Since SACCOs are playing a role in housing supply, the supplementing of existing resources for this purpose by the infusion of HG monies should build upon existing practices and capability to the extent possible.

- The HDRF pilot project should make loans for housing purposes through SACCOs to low income wage earners. The HDRF should allow SACCOs to make larger loans for slightly longer terms than they do now; however, it should not distort the structure of the SACCOs as short term lending institutions. The general recommendation is that the HDRF provide for loans to individual SACCO members in the Sh 20,000 - 60,000 range, with repayment periods of 3 to 7 years at 12 percent annual rate of interest on the unpaid balance. These practices would be consistent with current practices.

- The $3 million loan fund would be approximately Sh 51 million, which would finance approximately 1,700 individual loans at an average of Sh 30,000 each.

- The HDRF should be used to leverage members' savings.

- In order to assure adequate management control and testing of assumptions, it is recommended that the pilot project be limited to a small number (say 60) SACCOs,

carefully selected for financial viability, management capability, and demand for housing lending.[2]

- The administration of the HDRF should be determined by Government of Kenya in collaboration with RHUDO. This determination should be guided by present capacity and Government policy objectives within the cooperative sector. Specifically, CHF has proposed that the pilot HDRF be divided in two and administered by the Cooperative Bank and KUSCCO[3]. This division would provide for a testing of the systems and result in final recommendations about the structuring of a larger program should the pilot HDRF prove successful.

  Before this decision is taken, however, consideration must be given to the following policy issues that have been identified:

  -- Government's decision that all housing matters related to the cooperative sector should come under the jurisdiction of NACHU, and

  -- Government's decision to reinvigorate and revitalize KUSCCO as a service organization for SACCOs.

  Where technical issues with regard to housing are involved, it seems desirable that NACHU have involvement as it has the developed capacity in this area and it would be redundant and counterproductive to reproduce these in KUSCCO. This role would be consistent with that described in the draft cooperative housing policy. However, insofar as the pilot project is simply a disbursing of funds, KUSCCO has a legitimate bookkeeping and monitoring role to play and is well-placed to play it.

  An additional complexity is introduced by the new cooperative housing fund that NACHU and the Ministry of Cooperative Development have proposed, which would have as one of its purposes the encouragement of SACCOs to open housing savings "windows," would leverage housing savings for housing development purposes, and would provide NACHU maximum utilization of funds raised through SACCOs and housing cooperatives for the benefit of the members in housing development. If this should be established,

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[2]While one possible objective of a project like the HDRF could be simply to inject HG funds to augment the monies for housing lending, a legitimate concern is that of verifying that the monies so injected are used for housing purposes. Insofar as that is a concern of the HG program, then, it seems appropriate to assure this by building a monitoring system into the project. However, a balance must be struck between overall project control and the capacity of individual SACCO's to manage the loans.

[3]Our understanding is that these funds would have to be borrowed on behalf of Government by the National Housing Corporation, which would in turn on-lend to the Cooperative Bank and KUSCCO. If the Cooperative Bank could borrow directly, this might be desirable because it should eliminate some administrative costs.

then, careful coordination with the proposed HDRF would be necessary and care taken to ensure that the two did not compete with each other in a harmful way. In this case, also, NACHU could undertake to administer the pilot project for the Cooperative Bank.

- The original intent of the study was to ascertain how far such a program as that proposed under the pilot HDRF could penetrate into the informal sector. Under the current structure, such penetration will be limited to those who live in but do not work in the informal sector. However, it is Government policy to foster the development of informally based credit societies for those who gain their livelihood from informal sector activities; the progress in implementation of this policy should be carefully monitored and the feasibility of including them in any enlarged project that might result should be re-examined at a later time.

It is beyond the scope of this report to detail a program supporting these recommendations. Rather, what follows here is the analysis that has formed the basis for the recommendations, the broad outlines of a possible implementation program for the pilot HDRF, and some recommended next steps to be taken in preparation of the pilot project.

I. INTRODUCTION

A. Background

This report results from a study undertaken to seek ways in which to make credit available to persons who live and/or work in the "informal sector". For purposes of this study, the "informal sector" is defined as those persons who are unable to obtain credit for the purpose of improving their housing through finance institutions with formal institutional responsibility for lending for housing purposes, eg. building societies. Formal credit for housing is unavailable for a variety of reasons pertaining to their relationship to the informal sector. These reasons include their employment status or their housing tenure: a low income level, lack of collateral, lack of a verifiable source of income, lack of clear title and/or sporadic nature of earnings.

The study premises were twofold:

- this target group does not present an inherently greater risk than any other, if an appropriately structured program were to be put in place, and
- Kenya's housing deficit, both in urban and rural areas, would be considerably reduced if the resources and initiative of this group of people could be mobilized by providing them with access to credit.

Within this context, the National Housing Corporation (NHC) and the U.S. Agency for International Development (USAID) have agreed to target up to $3 million of the $30 million Kenya Private Sector Housing Project (615-HG-007) to fund a pilot effort to address the housing problems of the informal sector.

B. Purpose and Scope

The specific purpose of the study was to assess the potential for channelling some of the Housing Guaranty (HG) financing to be made available to the NHC under the Kenya Private Sector Housing Project to beneficiaries in the informal sector and low-income wage earners. Based on this assessment, the preliminary dimensions of a proposed program have been identified.

The savings and credit cooperative societies (SACCOs) provided a point of departure for the study, since in Kenya they seem to provide a bridge of sorts between the formal and the informal sectors. Indicating the insufficient availability of housing finance to those at the lower end of the income spectrum, SACCOs are already providing a significant level of credit for housing outside the formal housing finance institutional structure.[4] However, because membership in Kenya's SACCOs is, in the large majority of cases, employment-based, this

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[4]It has been estimated that between 75 and 80 percent of credit union loans are for housing purposes. These purposes include both new construction and home improvement. (See, for example, "Community-Based Finance Institutions," UNCHS, 1984 p.45).

credit is primarily extended to persons who are employed in the formal sector,but who may live informal housing.

The present capability of the entire cooperative financial sector and that of the local authorities with respect to the delivery of housing and related services were also studied, together with their linkages to other finance institutions within the formal private sector.

C. Policy Context

The recommended pilot project is consistent with Government of Kenya policy objectives in the following ways:

- The National Housing Strategy for Kenya emphasizes that the delivery of housing will be to a large extent a responsibility of the informal sector, which already provides 60-80 percent of new units in urban areas, about 24,000 units annually.

- Lower-income households predominately build their own houses with little or no financing from formal sources. Government policy is to encourage private development.

- The government policy is to foster improvement in financing for low-income housing in general and for those in the informal sector in particular. Formal sector housing finance mainly reaches upper income groups and the small minority in public sector programs. Government expects that the informal employment sector will continue to provide the majority of jobs in urban areas.

1. National Economic Policy

In order to accommodate Kenya's rapidly growing population, which will reach about 35 million by the turn of the century, the government of Kenya (GOK) has adopted a comprehensive strategy for accelerating economic growth.[5] This strategy is based on five key principles:

- job creation
- increased agricultural productivity
- increased rural nonfarm activity
- encouragement of a dynamic informal sector
- restructured industrial production/productivity

The program outlined in this paper has been developed within this overall framework. In attempting to address the housing needs of the informal sector, the program will contribute directly to the dynamism of that sector.

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[5]Sessional Paper No. 1 of 1986,on Economic Management for Renewed Growth, "Government of Kenya, 1986.

Moreover, because the program is designed to mobilize resources for housing, it will also create jobs and increase rural nonfarm activity. Finally, in that it caters to the basic housing needs of some of the agricultural and industrial workers, the program will also contribute to the overall productivity of these sectors.

2. National Housing Strategy

The pilot project is also consistent with the central thrust of Kenya's National Housing Strategy and its basic policy principles, which are as follows:

- maximization of additions to acceptable housing stock
- targeting of lower income groups and small towns and rural areas for government interventions
- encouragement of increased informal sector resources directed to production of acceptable housing
- provision of increasing share of housing finance through finance institutions for development and maintenance of housing
- continuation of public sector responsibility for financing of infrastructure
- harmonization of housing and construction related laws, and
- increasing consultation with and involvement of local communities in housing supply and delivery.

Flowing from the government's blueprint for economic growth and based on these policy principles, Kenya's National Housing Strategy for the period 1987-2000 anticipates a large increase in private resources to be directed toward housing, especially in small towns, suburban settlements and rural areas.[6] This area of focus implies the necessity of catering to large numbers of those living and/or working in the informal sector.

In addition, the National Housing Strategy identifies housing finance as the area of "greatest uncertainty," in light of the large proportion of formal lending that is currently directed toward high-cost housing. Therefore it is anticipated that substantial additional investment at lower income levels would be necessary in order to cater to all needs. It is estimated by the National Housing Strategy that an increase of as much as 50 percent

[6] "National Housing Strategy for Kenya, 1987-2000," Department of Housing Ministry of Works, Housing and Physical Planning, 1987, p.1.

in formal financing in urban areas alone might be required to meet the production target of 60,000 units annually.[7]

The pilot project which is conceptualized and broadly described in this paper identifies a means of expanding the institutional mechanisms available for housing finance and, in so doing, also provides a means of mobilizing the resources of the informal sector for the purposes of housing. If implemented as described, the pilot project could be expanded into a national program, which would assist in the achievement of the production and investment targets set forth in the National Housing Strategy, in a manner fully consistent with national policy.

D. Relevant Housing Framework

The report on the National Housing Strategy for Kenya (1987-2000)[8] describes a framework for housing development. It shows that in urban areas, 40,000 units per year are constructed, a shortfall of about 20,000 dwelling units per year. Between 60 percent and 80 percent of all new units have been constructed by informal sources i.e., not by government agencies or formal private sector builders/developers. About 60 percent of all units constructed are not receiving minimally adequate infrastructure services.

Most housing in urban areas is provided as informal rental units which do not conform to building and subdivision standards. Owner occupied units in urban areas make up 20 percent of the total and are built at relatively low densities for higher income groups. The need for improved housing is clear. The strategy notes that the " . . . dominant housing arrangement for lower income groups is a rented room with communal facilities shared by several households sharing the same structure. With average household sizes of at least five persons and units being in the 8 - 10 square meter range, extraordinary densities occur."

In rural areas, traditional self-built housing is still the norm. A major constraint to improved housing is the availability of finance, as most formal institutions do not lend in rural areas. The GOK strategy recommends that rural lending may be of a different character with emphasis on incremental construction financed by a series of small, short-term loans.

Based on what low-income households can afford, the strategy report estimates that the average cost per unit is Sh 33,500 in urban areas and Sh 12,500 in rural areas. This provides a one- or two- room unit with communal facilities in urban areas, or a traditional house in rural areas. In urban areas, this is a rental unit in a larger structure, not a unit for owner occupation on its own plot. Median urban household incomes in Kenya vary between Nairobi and the smaller towns. Presently, the urban median is estimated by USAID at Sh 3,000 per

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[7] Ibid.,pp. 3-4.

[8] "National Housing Strategy for Kenya," Department of Housing, Ministry of Works, Housing and Physical Planning, 1987.

month. Monthly loan repayments of Sh 900 would be affordable at the median, based on 30 percent of household income for debt repayment.

The strategy places heavy emphasis on the role of the private sector and states that there will be a shift in " . . . the role of Government from one of direct developer of housing for lower income households involving moderate subsidies to one of working with and facilitating the development of this housing by private entities charging market prices. Part of this evolution will be to work with developers of what has in the past been 'informal' housing . . "[9]

Informal sector housing is comprised of residences which have one or more of the following attributes: tenure to the land is unclear, the structures do not meet standards set in building regulations, or they are financed by noninstitutional resources (other than all cash by owner).

E. The Informal Sector

A concern of the informal sector workers and their families is that because they operate outside the formal sector of the economy, they find it difficult to gain access to housing finance, including from the savings and credit cooperative societies. At the same time, Sessional Paper No. 1 recognizes that the urban informal sector will continue to play the major role in providing employment. It was estimated that in 1982 there were 172,214 people employed in this sector.[10] According to a recent working group convened by Matrix Development Consultants, there are now between 600,000 and 800,000 working in the informal sector. (While terms used in these two estimates are not identical, they are similar enough to show that substantial growth has been occurring in informal employment.)

Urban informal sector earnings in 1982 averaged Sh 1,485 per month. The 1988 Matrix estimates were that petty traders made a net profit of Sh 500 per month, those in small-scale manufacturing made a net profit of Sh 600-900 per month, and those in service industries made Sh 2,000 per month. While these figures are only indicative and disguise considerable income ranges, it seems that a significant share of informal sector households could afford decent housing if they had access to suitable financing.

F. Structure of Relationships Among Formal and Informal Employment, Housing, and Finance by Household Income Levels

In this study, the definition of "informal sector" used is as stated in the first paragraph of this chapter: Those people who are unable to obtain credit for housing purposes through formally established housing finance institutions because of their employment status or housing tenure in the informal sector. This definition has been formulated based on the Terms of Reference for this study.

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[9] Ibid.

[10] "Report on Small Scale Enterprises (Formerly Informal Sector) in Rural and Urban Areas of Kenya, 1973-1982," Central Bureau of Statistics, Ministry of Planning and National Development, September 1986.

The definitional problems presented by the term "informal sector" derive from complexities in the relationship of income to employment status and housing tenure. This relationship is illustrated in Figure 1.

The dominant structure of the relationship is two parallel tracks, placing low income households in the informal sector and middle and upper income households in the formal sector. Low income workers and their dependent family members are mostly limited to informal sector jobs, housing and finance. On the other hand, middle and upper workers tend to have formal sector jobs, they and their families live in formal houses (standard construction and legal titles), and they have access to financing through formal institutions.

As Figure 1 indicates, there are crossovers between the informal and formal sectors. For example, some low-income workers have formal sector jobs, although their low income usually limits them to informal housing and financing (except if they are 16members of savings and credit societies). Some informal sector workers have incomes sufficient to enable to them enjoy standard housing and access to formal financing for housing and other purposes.

Since most low-income workers are in the informal sector, they are limited to informal sources of financing (e.g., relatives and friends, money lenders, "merry-go-round" and similar share games). Only membership in a savings and credit society enables low-income informal sector workers to borrow funds for housing and other purposes from regulated institutions i.e., their SACCOs. However, in Kenya there are very few credit societies of informal sector workers (with work, residence, or religious/social organization as the common bond). Thus, for the vast majority of poor families, lack of affordable financing limits them to inadequate housing.

FIGURE 1

LOW-INCOME INCOME HOUSEHOLDS	MIDDLE AND UPPER-
INFORMAL SECTOR JOBS	FORMAL SECTOR JOBS
INFORMAL SECTOR HOUSING	FORMAL SECTOR HOUSING
INFORMAL SECTOR FINANCING	FORMAL SECTOR FINANCING

II. SAVINGS AND CREDIT SOCIETIES

This section describes the SACCO system as it exists today in Kenya.

A. SACCOs in a Policy Context

Government policy with regard to SACCOs is set forth, together with policy toward other cooperative organizations in Kenya, in Sessional Paper No. 4 of 1984, "Renewed Growth Through the Co-operative Movement," prepared by the Ministry of Co-operative Development. In this paper, Government views the cooperative movement as providing ". . . one of the well-established institutional arrangements for conducting the economic affairs of the nation." It states further "Government recognizes that co-operatives form an essential development tool to achieve the national objectives. The Co-operative movement's democratic structure, full involvement of people and its coverage of both the rural and urban sectors fits well into the Government's development strategy."[11]

Within that overall context, the SACCOs are defined as those savings and credit cooperatives that are formed by salaried or self-employed persons which are established with the "primary objective of enabling members to save regularly together, for the purposes of creating a pool of funds from which those members can obtain credit facilities on softer terms than would be available in the existing financial institutions."[12] Of the wide range of purposes for which that credit is used, housing and related purposes figure prominently.

Like other cooperative societies, SACCOs are governed by the Rochdale principles, which include democratic control by the members. The membership elects a Board of Directors, from which is selected a Management Committee, responsible for managing the affairs for the SACCO.

It is Government's stated policy to continue to encourage the formation of SACCOs and SACCOs are recognized by Government for their contribution to the mobilization of savings throughout Kenya. In Sessional Paper 4, the union banking sections of cooperative unions were folded under the SACCO rubric and it was indicated in conversations with the Ministry of Co-operative Development that current Government intention is to encourage the formation of SACCOs among those people who work in the informal sector.

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[11] "Renewed Growth Through the Co-operative Movement,' Ministry of Co-Operative Development, Sessional Paper no. 4 of 1987, p. 2.

[12] "Renewed Growth Through the Co-operative Movement," p. 19.

B. History of SACCO Development[13]

The first SACCO was registered in 1964. The following year, a National Promotion Committee was established. It was the responsibility of this group to develop policies for SACCOs and to regulate their development.

Because of failures among the initial, locality-based SACCOs, in 1969 Government limited the registration of new societies to those "in which members had a strong common bond"; this language has been interpreted most commonly to mean wage and salary earners with a common employer. The restriction was lifted in 1975; however, the practice still dominates the development of SACCOs.

Following the formation of the apex organization Kenyan Union of Savings and Credit Cooperatives (KUSCCO), in 1973, there was rapid growth of SACCOs -- both in terms of numbers of societies, as well as in the size (membership, savings and borrowing) of the individual societies. KUSCCO took over the responsibilities of the National Promotion Committee.

Figure 2 depicts the nature of the growth during the 1970's and 1980's.

Figure 2

	1972	1978	1986
Number of Societies	**101**	**509**	**1,029**
Number of Members	**36,000**	**199,000**	**792,948**

In part because of the rapidity of this growth and in part because of a lack of standardized procedures, some SACCOs fell victim to various sorts of problems, including inefficiency, errors, and embezzlement. Government intervened through the Cooperative Development Department to develop standardized loan criteria and procedures. In addition, manuals for management and accountancy, lending policies, bookkeeping, management committees, and internal audit were developed and distributed.

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[13]Much of the historical information contained in this section is based on literature review and is primarily indebted to "Cooperative Information Note: Republic of Kenya (No. 2 Revised), COPAC Secretariat, 1984, pp. 30-33.

Steps were also taken to improve training of the management of new SACCOs and to be more cautious in the registration of new societies.

KUSCCO itself, following its insolvency,[14] has recently undergone restructuring and revitalization, the result of which is reflected in the document entitled "New Task Force Report on Revitalization of KUSCCO" (February 1988) and Revised By-Laws. Under the restructuring, KUSCCO is given several responsibilities, including the promotion of viable SACCOs, the promotion among SACCOs and their officials, employees and members a common code of ethics, the provision of assistance to improve the internal management of SACCOS by standardized management and internal audit systems, and the establishment of an interlending mechanism.

C. Scope and Extent of SACCOs

- The savings and credit cooperative societies (SACCOs) have prospered since they were introduced in the early 1970s. There are now 1,300 SACCOs. In 1986 the SACCOs had a membership of 800,000, cumulative savings of Sh 4,464 million, and loans outstanding of Sh 4,336 million. In that year alone they lent Sh 3,740 million to members with average loans ranging from Sh 10,000 to Sh 17,000 depending upon the nature of the SACCOs. Their loans are financed entirely from members' savings; they do not borrow from the open market because of the higher interest rates for external loans.

- The common bond of nearly all SACCOs is employment of their members in the formal sector. This includes many low-income earners, but not workers in the informal sector. SACCOs are of two main types: countrywide societies embracing workers in large organizations and smaller societies in one location. Teachers are organized on a district basis. In the rural areas credit needs of farmers who are members of marketing cooperatives are met by the union banking sections operated by some district cooperative unions. The Government plans to convert these union banking sections into SACCOs.

- The savings and credit system has not penetrated the informal sector, as there have been reservations about extending the system without the loan security provided by deductions from salaries. The government is now in favor of expanding the SACCOs to the informal sector. While modalities have yet to be detailed some new SACCOs in the informal sector are coming into being. An encouraging sign is the report of a growing number of women's groups which operate simple savings and credit activities.

- It is estimated that over 70 percent of existing SACCO loans are used in some way for housing purposes, including land purchase, house construction, and house improvement in both urban and rural areas. However, the loan terms are most commonly for 36 months at 12 percent interest. Because such loans are insufficient for significant

[14]Based on analysis of its balance sheets for 1984, 1985, and 1986. "New Task Force Report on Revitalization of KUSCCO," February 1988, p. 1.

investments at one time, they are most often used for land acquisition and then incremental building.

- The larger SACCOs are making a number of investments on behalf of their members, often in commercial property. Usually, separate shares are issued and they do attract investors. Many SACCOs have acquired land for housing. The members of some SACCOs have formed housing cooperatives to undertake specific housing projects for all or some of the SACCO members.

- More than half of the registered SACCOs are in Nairobi Province. There is a total membership of 531,052 in 561 active SACCOs. Their cumulative savings are Sh 3,135 million and loans outstanding Sh 3,036 million.

D. Main Categories of SACCOs

SACCOs fall into two principal categories. First, there are the countrywide societies. These are normally based in Nairobi but have members throughout the country, following the pattern of their employment. The biggest of these are the largest societies in Kenya and are significant financial institutions. The 31 countrywide SACCOs have almost half of the total SACCO membership (343,000 or 43 percent), half the share capital (Sh 2,213 million or 50 percent), and half the outstanding loans (Sh 2,074 million or 48 percent).

The largest, Harambee, is for civil servants and has a membership of 75,245 with Sh 413 million in shares and Sh 311 million in outstanding loans. The second largest, Ukulima, has 37,948 members with Sh 223 million is shares and Sh 208 million in loans. The top 11 societies are all for government or parastatal employees. This ranking is by membership alone. While Harambee also has the largest share capital in total, those SACCOs with higher salaries and a higher propensity to save have a higher average share capital per member. For example, the average share capital in Harambee is Sh 5,469, in Mwalimu (teachers) it is Sh 11,685, and in Tembo (breweries) it is Sh 20,877. The tendency is for SACCOs based on private organizations to have higher share capital per member. A list of countrywide SACCOs is attached as annex 2.

Second, there are SACCOs based on an employer in a particular locality. These make up the majority of societies. A brief analysis of these 1,000 societies shows a total membership of 430,000, Sh 2,251 million in share capital, and Sh 2,262 million in loans outstanding. Among these societies the ones formed by teachers on a district basis (there are 41 districts in Kenya) are particularly successful. For example, Embu Teachers SACCO (Eastern Province) has 2,839 members, share capital of Sh 24 million, and lent Sh 15.6 million in 1987 (unaudited). Some members of the SACCO have formed a housing cooperative society and have acquired land for housing.

A brief assessment of SACCO loans made per member in 1986 showed that Reli (parastatal) lent an average of Sh 10,435; Afya (government), Sh 15,921; Firestone (private), Sh 17,119; and Embu Teachers, Sh 16,459.

Figure 3 shows societies in Nairobi Province, Coast Province, and the countrywide societies classified by membership size to indicate relative magnitudes. The first column shows numbers of societies in each category, the second (in parenthesis) shows the percentage in each category.

Figure 3

Membership	Nairobi		Coast		Countrywide	
1 - 50	164	(30)	33	(21)	1	(4)
50 - 100	143	(26)	46	(29)	-	-
101 - 200	107	(20)	44	(28)	-	-
201 - 500	94	(17)	21	(13)	1	(4)
501 - 1,000	20	(4)	6	(4)	2	(6)
1,001 - 5,000	14	(3)	5	(4)	10	(32)
5,001 - 10,000	1	(0.2)	1	(0.6)	7	(22)
Over 10,000	-	-	-	-	10	(32)
Totals	**543**	**(100)**	**156**	**(100)**	**31**	**(100)**

As can be seen, the countrywide societies have a much larger membership, with 54 percent having more than 10,000 members. The local societies have a median membership of less than 100, but over 20 percent have memberships in the 200 to 1,000 range where there are a number of well-organized and financially significant SACCOs.

E. SACCO Operations

SACCOs lend without tangible security (collateral); the security on loans is provided by the check-off system, i.e., deductions from wages and salaries by employers for savings and for loan repayments. Each loan also is guaranteed by at least one other member of the SACCO.

The SACCOs are allowed to lend for periods of up to 48 months; most give loans for up to 36 month, as they wish to turn over loans quickly in order to serve as many as members as possible. Interest rates on loans are one percent per month (i.e., 12 percent per year) on the declining balance, the legal maximum as defined by the Ministry of Co-operative Development. Loan eligibility is based upon the amount of the applicant's shares and savings and their wage. Normally, borrowers can borrow up to three times their shares.

In their accounts, most societies divide the savings between shares and deposits. This is because dividends paid on shares are subject to 15 percent withholding tax. However, all savings are commonly known as shares.

SACCOs do not pay fixed interest on savings. They declare a dividend at the end of the financial year. (The sessional paper expects that some efficient societies will be able to operate savings accounts).

While most of the societies are urban based, the loans by members are invested in both rural and urban areas. The sessional paper notes that loans are put to a wide range of uses for the benefit of individual members, including " . . . purchase of commercial plots and premises, building of homes, investing in small business ventures and paying of school fees and medical bills."

A UNCHS (Habitat) study[15] made in 1984 estimated that about 30 percent of loans were used for land purchase and improvement and about 45 percent for house purchase, construction, and improvement. The same report noted that SACCO lending for housing equalled that of the two largest housing finance institutions. Interviews with a number of SACCOs carried out for this report tended to confirm these percentages.

F. SACCO Investment

Some societies have begun to accumulate shares in excess of their ability to lend on the basis of their lending criteria and have begun to make investments, mainly in commercial property. They have invested in hotels, office buildings, warehouses, and housing. The MoCD, concerned about these investments, has laid down guidelines (Policy and Guidelines on Co-operative Investments, 1985) which discourage investments in property but state that all such investments must be " . . . registered and managed as a separate entity, for example a separate co-operative." Individual members can contribute toward shares for specific investments. Investments have to be included in the annual budget of societies (thereby requiring approval by membership at the annual general meeting). Investments over Sh 100,000 have to be approved by the MoCD.

The commercial property investments by SACCOs can be significant. Figure 4 gives some examples of the values of investments made by the larger SACCOs.

Figure 4

Name of SACCO	Value of Investment (in Sh millions)
Posta	135
Harambee	131
Ukulima	86
Tembo	30
Kenya Police	30
Reli	12
Afya	12
Kenya Bankers	13

[15] "Community-Based Finance Institutions," UNCHS, 1984.

The majority of societies are lending close to their maximum and find it necessary to raise separate share capital and, in some cases, to borrow to make these investments after they have satisfied the demand for loans by members.

G. SACCOs and Housing

The members of some SACCOs have formed housing co-operative societies. This separation of the credit and housing functions protects the members of both societies even if the membership is identical. Housing societies with this common bond already have some of the basic preconditions for successful housing development, as they have experience in finance mobilization and management.

H. Cooperatives and Rural Credit

Credit in the rural areas has also been provided by cooperatives through the "union banking sections" (UBS) of the district cooperative marketing unions. There are 15 of these sections. These UBSs have accounts for each member of the affiliated primary cooperative societies, and produce payments are made to these accounts. Loans are made on the basis of anticipated crop payments. In the more successful societies, some loans are used for housing and construction purposes. UBSs do not lend on the same terms as SACCOs; they use commercial bank rates, for example, 15 percent.

The Sessional Paper No. 4 envisages the transformation of UBSs into rural SACCOs. They will be separated from their cooperative unions. The guidelines for undertaking this transformation are still being prepared. Two primary societies with UBS branches (Meru North and Mathira) have been selected as pilots for implementation.

Outside the cooperative movement, informal rural credit is undertaken by women's groups (registered with the Ministry of Culture and Social Services). They usually have a rotating credit scheme (known as a merry-go-round), which is familiar in many African countries. It is understood that some women's groups in the Central Province have been converted into cooperatives.

I. Informal Sector

The urban informal sector has become a new focus of attention for cooperative development. The MoCD is promoting "jua kali" (informal sector artisans) and "kazi" (labor contracting) cooperatives. These are not SACCOs, but are organized for the purposes of marketing and work organization. There is potential within these new urban cooperatives to begin savings and credit activities, but modalities will have to be worked out very carefully. As informal sector workers in the urban sector do not receive wages, the check-off system for loan payments cannot be used as security.

There are some indications of how this could be done. For example, Akamba carvers in Mombasa have initiated a SACCO that is run independently of their handicraft society. They plan to use members' woodcarvings, deposited with the society for sale, as security. In other informal sector activities, various types of security may be appropriate depending on the nature

of the society and types of security available to it (e.g., income from crops, land, personal property). In extending of SACCOs to the informal sector in both urban and rural areas, the experiences of providing credit should be closely studied. besides the advantage of the check-off system of loan repayments, employer-based SACCOs also may benefit by staff time paid by the company for bookkeeping, attendance at meetings on company and the social reinforcement of the work place. On the other hand, community-based SACCOs benefit by self-reliance, independence and community association. Usually the employe-based SACCOs are more tightly managed than the community-based SACCOs.

J. Kenya Union of Savings and Credit Co-operatives Ltd. (KUSCCO)

KUSCCO is the nonprofit apex organization for SACCOs in Kenya. It has a membership of 632 societies out of an estimated total of 1,300. Since it was established in 1972, KUSCCO has experienced many difficulties. In February 1988 a task force reported on a plan for the revitalization of KUSCCO. KUSCCO reported losses of Sh 1.8 million at the end of 1986. It major revenue is the fees earned by providing bookkeeping services to 444 societies. In 1986 this earned Sh 4.8 million out of total revenues of Sh 6.9 million. The only other major source of revenue was Sh 1.2 million in annual subscriptions.

Under the revitalization plan, KUSCCO intends to increase annual subscription rates, increase membership to 1,300, and increase the minimum share holdings by members. It is projected that the resulting annual revenue will be as follows:

	1988	1989	1990
Revenue in Sh	**2,800,000**	**3,200,000**	**3,800,000**

It is not anticipated that revenue from bookkeeping will increase, but revenue from acting as an insurance agent to Co-operative Insurance Services is planned to increase to Sh 1.25 million per year. The above are seen as short term measures; the plan also suggests long-term strategies to improve KUSCCO services and to generate revenue. An interlending fund is to be established. KUSCCO is currently arranging for technical assistance to set up this program. It is expected to generate Sh 450,000 in 1989 and Sh 675,000 in 1990. KUSCCO expects that it will take from two to three years before the program becomes fully operational. Some years ago there was an interlending program among the SACCOs that experience serious problems. KUSCCO leaders realize that a new program will need to be well designed and carefully managed if it is to attract participation by many SACCOs.

Other services which KUSCCO intends to establish, but which are not budgeted, are auditing, coordination of SACCO investments, research and development, education and training, and data processing.

Under its new by-laws, KUSCCO directors will be elected by the membership rather than appointed by the Ministry of Co-operative Development. This change should result in KUSCCO being more responsive to the needs of SACCO members. The new management team has a very positive approach to implementing the revitalization plan.

KUSCCO is at a watershed and only time will tell whether it will be able to implement the revitalization program successfully. It wants to play its role as the national SACCO apex body more effectively and to better represent the movement internationally. Of particular relevance to the housing initiative will be the management of the proposed interlending program, since KUSCCO has no experience in lending.

K. Summary of Conclusions

The employment-based SACCO movement has been extremely successful in mobilizing savings from workers in wage and salary employment and in providing short-term loans to them. Over 70 percent of these loans are utilized in housing related investments in both urban and rural areas; this is approximately Sh 2,600 million per year for housing.

SACCOs are, in effect, closed financial systems, mobilizing and lending funds within each society. Liquid funds and reserves are kept in current and interest bearing accounts at the Co-operative Bank, but societies do not borrow for funds to lend to members. The reason for this is the interest rate structure. SACCOs lend to members at the maximum rate allowed by the MoCD, one percent per month (i.e., 12 percent per year) on the declining balance. The Co-operative Bank lends at a rate determined by the Central Bank, currently 15 percent. (As the rural UBS's lend at commercial rates, it is interesting to note that there is demand for loans by cooperative members at higher rates).

There is demand within the SACCOs for finance for housing investments which is not being met by short-term loans. However, a conventional mortgage loan will not necessarily be appropriate as members often wish to invest in informal sector housing or housing in rural areas. They do not wish to incur supplementary expenses (fees, charges, etc.) and may not be able to provide clear title to the property. Medium-term loans may better suit housing finance needs and fit into the overall informal housing development pattern, which constitutes the major part of housing provision in Kenya. Alternative methods of securing loans may be required for medium-term loans.

The larger SACCOs, both countrywide and locally based, have begun to diversify and to make investments, mainly in commercial property. This has been financed from surpluses where these exist, from purchase of special shares by members, and by borrowing. There is no specific facility at the moment which enables SACCOs as institutions to make financial investments in cooperative housing. Some SACCOs have resources which could be invested in the Co-operative Bank for housing investments if the Bank had its mortgage loan facilities operating. NACHU's proposed National Cooperative Housing Fund is a promising approach to this end.

Some SACCOs have provided a basis for the establishment of cooperative housing societies. In these cases, the members formed a separate society, and the SACCO granted loans to members to enable them to buy shares in the housing society. The loans were used to fund some development costs and down payments. The National Housing Co-operative Union (NACHU) provides technical services to these housing cooperatives.

The UBSs provide a mechanism for credit for farmers belonging to cooperative marketing societies. These UBSs are linked to the banking system as a whole and use the same rates as the banking system for deposits and loans. Members borrow for various purposes including house construction. Again, they might benefit from longer term loans and from alternative forms of collateral. However, it is planned that the UBSs will be converted into SACCOs.

Initiatives are being taken by MoCD and KUSCCO to promote the creation of SACCOs which are not employment based and which have some other form of common bond. The conversion of UBSs to SACCOs will include farmers. Also, some women's groups which are performing well in savings and credit activities (and in income generation) are being converted to cooperatives where appropriate. In the urban areas, groups of artisans are being formed into cooperatives and other groups are being introduced to credit management through a number of programs. Each of these groups in the informal sector has distinct characteristics which must be addressed. They all provide a basis for the development of SACCO activities which can include housing finance.

The pattern of SACCOs shows many strong individual societies and some weaker ones. The apex body for SACCOs, KUSCCO, represents about half of the total of 1,300 societies. It is beginning to implement a revitalization program. KUSCCO is a natural organization to become an actor in a housing finance program for credit societies, but has no experience in handling loan programs.

The Co-operative Bank (described in chapter 3) has programs for all types of cooperatives. SACCOs bank with it but do not borrow (except for special investments), although they do own share capital and are represented on the board. Also, the interest rate structures of the SACCOs and the bank do not match. The bank has demonstrated the capability to handle special loan programs.

III. PRESENT FINANCING OF HOUSING [16]

A. Overview

There is a wide range of finance institutions in Kenya involved in housing finance. They include institutions specializing in housing, specifically the Housing Finance Company of Kenya, Savings and Loan Kenya, and numerous building societies. In addition, there are banks and nonbank finance companies that provide some construction and mortgage financing--mostly to their established customers. Informally, housing loans are made by relatives, friends, employers, and money lenders. In the cooperative sector, houses are financed by the Co-operative Bank, savings and credit societies, union bank sections, and cooperative housing societies.

Some insurance companies and pension funds also are involved in financing housing to limited degrees. However, since there is not a secondary mortgage system in Kenya, they do not purchase mortgages or mortgage-backed securities as similar institutions do in many other countries. Borrowers of mortgage loans are required to take out life insurance policies to insure repayment of the loan. However, there is neither public nor private mortgage default insurance.

A key difference among the housing finance institutions, banks, and nonbank lenders on the one hand and the savings and credit societies and informal lenders on the other hand is that the former require the house as collateral while the latter usually do not. Thus, borrowers with uncertain income and/or less than freehold or long-term leasehold title can only obtain loans from their savings and credit society or informal sources.

Following is a brief discussion of the housing finance sector, including cooperatives. A more detailed discussion of savings and credit societies is in the next chapter.

B. Housing Finance Institutions

There were five institutions specializing in housing finance licensed under the Banking Act and 32 building societies registered under the Building Societies Act at the end of 1986. Of these 37 institutions, only three were established before 1982: Housing Finance Company of Kenya (HFCK), Savings and Loan Kenya, and East Africa Building Society. In addition to these big three, Kenya Savings and Mortgages and Home Savings and Mortgages are major lenders. The others are fledgling institutions striving to attract savings, making some loans and, in several cases, investing in real estate development. These institutions operate in the cities and some of the major towns.

[16] Much of the information in this chapter has been extracted from recent housing finance reports prepared for the RHUDO, especially "The Housing Finance System in Kenya," USL International, Inc., and the Urban Institute, May 1986. Through interviews and more recent documents, the key findings and conclusions used here were corroborated. The documents on specific types of finance institutions are referenced in following notes.

Both construction and mortgage financing are provided by most of the housing finance institutions at interest rates between 16 and 19 percent and 10 to 25 year repayment periods. Variable rate mortgages are the rule, with all mortgages held by an institution adjusted to the same rate based on present cost of funds. At this time, savings deposits typically earn interest in the range of 8 to 12 percent, with variations by duration of savings period and type of institution.

Most customers of housing finance institutions save there with the expectation of eventually obtaining a mortgage loan. This expectation is realizable only if the institution can attract individual savers who do not want to purchase houses and other major depositors such as pension funds and insurance companies. The more established institutions have achieved this requisite balance for the most part, largely because they are affiliated with major commercial banks, the government, and other finance institutions. The approximately 30 newer building societies are engaged in intense competition for savings deposits and other deposits in efforts to build up capital for lending to members. Some societies are having difficulty in this regard and may not be successful.

Since the housing finance institutions have been able to mobilize substantial savings deposits and institutional investments, the question arises as to the possibility of some of their resources being loaned to or invested in the savings and credit society system for low-income housing purposes, especially for those in the informal sector. To date, there have not been any financial relationships between the housing finance institutions and the savings and credit societies. Nor does it appear likely that major amounts of funds from these institutions would be made available to the societies, because capital for housing loans is in substantial demand at interest rates which are several percentage points higher than the effective cost of funds to the societies. Executives of some of these institutions have expressed interest in financing cooperative housing projects. In so doing, they would be assisting some of the members of savings and credit societies as well.

C. Banks and Nonbank Finance Institutions

The 24 commercial banks provide some construction and mortgage financing, but regulations limit their loans in real estate to 24 percent. Since their funds are short-term, these loans are mostly for construction. Mortgage loans are limited to preferred customers and employees.

Nonbank finance institutions are registered under the Companies Act and licensed under the Banking Act. They have time and demand deposits and finance various business activities, construction, and mortgages at interest rates up to 19 percent compared to 14 percent for commercial banks. They can buy and develop property. Because of these regulatory advantages, these nonbank finance institutions increased from 16 in 1980 to nearly 50 in 1986. The turbulent financial market since then included the collapse of two banks and their affiliated financial institutions. Nevertheless, Kenya's financial market appears viable and most nonbank finance institutions continue to be generally strong.

The housing finance institutions (other than building societies) discussed above are among the largest of the nonbank finance institutions. Thus, for all of the nonbank finance institutions,

Sh 3 billion of Sh 8 billion in loans outstanding in 1984 were for building, construction, and house mortgages.

D. The Co-operative Bank of Kenya[17]

The Co-operative Bank was established 20 years ago under the Co-operative Societies Act. It is owned by the nearly 1,300 savings and credit societies and other cooperatives and supervised and regulated by the Central Bank, Ministry of Finance and Ministry of Co-operative Development. The following set of charts shows substantial growth over the last five years in deposits, advances, pretax income, and assets. Share capital also has been increasing, but is less than required by law. Therefore, the bank is aggressively seeking additional purchases of shares by members. This effort is difficult because many of the savings and credit societies feel they are not being well served by the bank and purchase of additional share capital ties up their funds.

Member savings and credit societies deposit their funds with the bank as required by law, but do not borrow from it (except for essential short-term needs) because the bank charges a higher interest rate (now 15 percent for loans of 12 to 36 months) compared to the effective cost of share capital and deposits of their members which is less than 10 percent. The primary societies make loans to members for 12 to 36 months at one percent per month on the unpaid balance. These inconsistencies in interest rates are attributable to different regulatory authorities. The practical consequence is that leaders of some of the savings and credit societies feel that the bank is indifferent to their needs.

As of June 1987, the Co-operative Bank had six branches, two sub-branches, and one mobile agency, with plans for four more branches. In addition to its regular banking functions for its owner/member societies, the bank since 1982 has been accepting savings, investments, and fixed account deposits from individuals. This business has become substantial despite the fact that these customers cannot borrow from the bank.

The bank also manages special loan funds for cooperatives from grants and loans from international development organizations (including USAID) and government programs. There were 18 such special loan programs in 1987.

Construction financing of cooperative housing projects is a new and important responsibility of the bank. Apparently, only two loans have been made thus far. Both the Ministry of Co-operative Development and the National Co-operative Housing Union (NACHU) are aggressively advocating that the bank improve and increase its construction lending capability.

A few years ago, the bank established a subsidiary nonbank financial institution under the Banking Act to provide long-term financing to savings and credit societies and other cooperatives. This institution could provide mortgage financing to housing cooperatives if it

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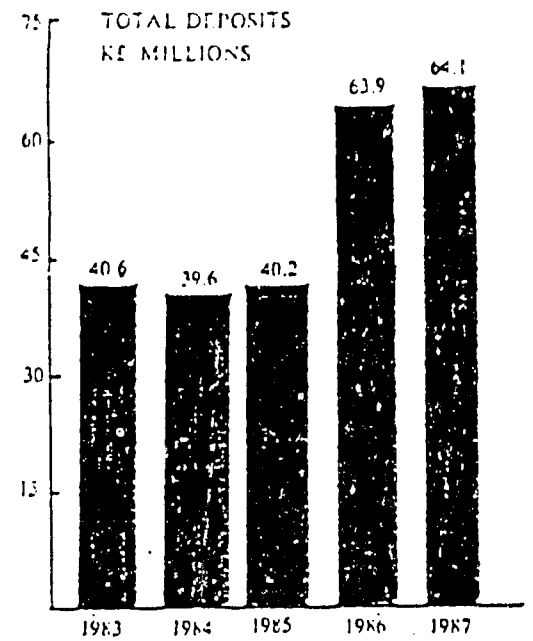
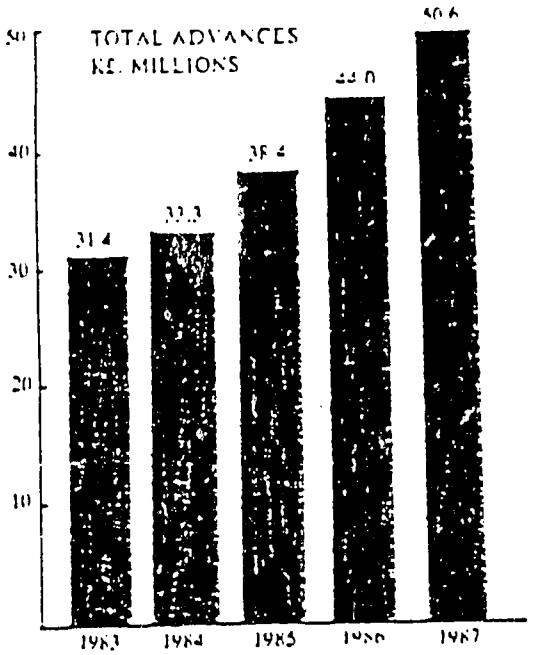
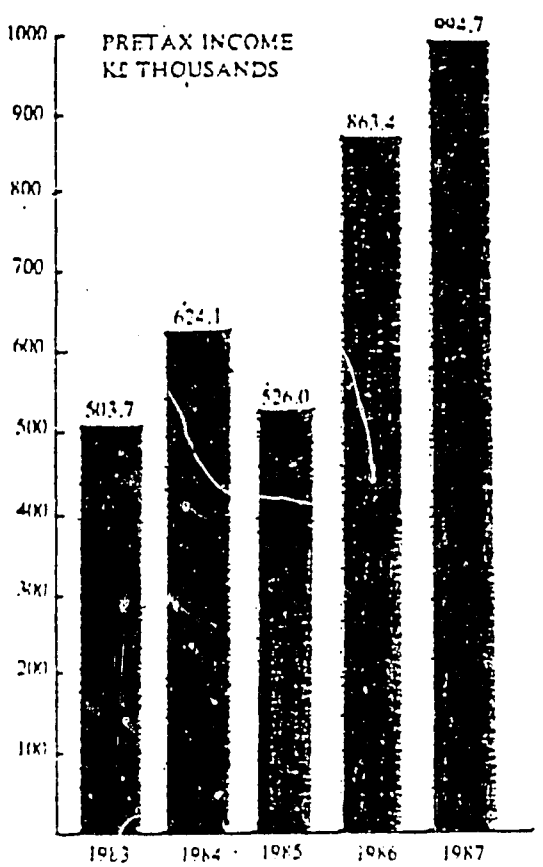
[17]Sources include "Annual Report and Accounts, 30 June 1987," by the Co-operative Bank of Kenya Limited, and interviews with bank and SACCO officers.

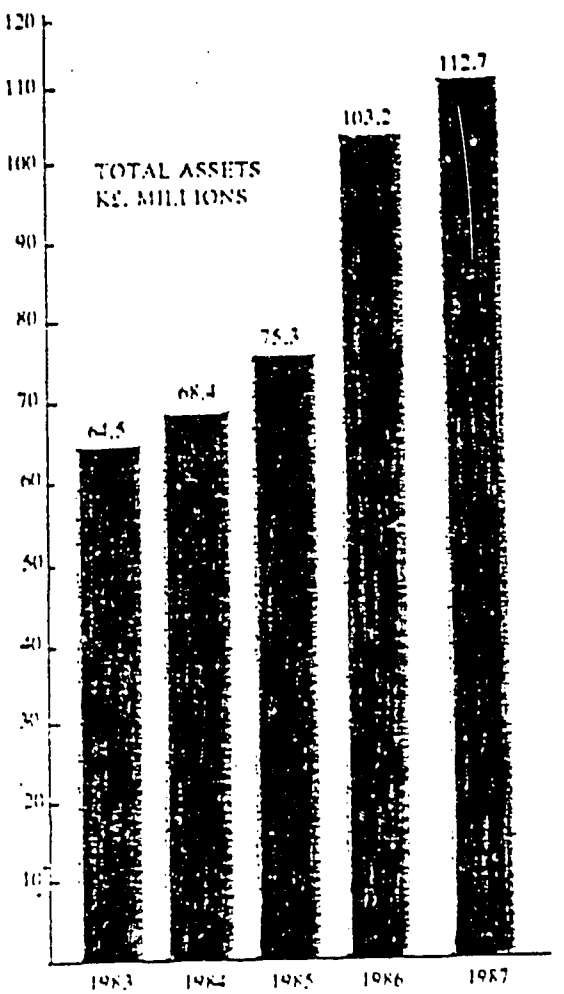
FIGURE 5

FINANCIAL HIGHLIGHTS OF THE BANK









had sufficient capital. However, the Central Bank and Ministry of Finance have reservations about this potential function of the bank, so the subsidiary has not been activated as yet.

The bank's 1988 five-year lending objectives include Sh. 400 million for "intensification into real estate investment." This is 20 percent of planned lending for all purposes and is second in amount only to agricultural production loans (Sh. 600 million). Real estate investment lending is intended to include both construction and mortgage financing; while not for housing only, housing probably would be the dominant purpose.

In general, the Co-operative Bank appears to be well managed and capable of providing the services intended to its owner/member savings and credit societies and other cooperatives. However, improvements are needed in its lending programs for savings and credit societies for general purposes as well as housing loans and to housing societies for both construction and long-term mortgage financing.

E. Savings and Credit Co-operative Societies (SACCOs)[18]

The approximately 1,300 savings and credit societies include 31 national societies (mostly based in Nairobi) and 600 local societies in Nairobi. The other half are spread throughout the 41 districts of Kenya. Total membership was nearly 800,000 in 1986 when there were 1,029 active societies. Nearly all the societies have the common bond of the same employer. Some are based on type and/or place of employment, e.g., a woodcarvers cooperative in Mombasa. Others have the bond of community organizations, e.g., some societies have been started by women's groups. However, very few societies are community-based with membership by place of residence. It is the policy of the Ministry of Co-operative Development to foster the establishment of more community-based societies.

The SACCOs' capital is derived from share capital, savings deposits, interest on loans to members, and other nominal income. Loans are made at one percent per month interest for up to four years in amounts up to three times the member's shares/deposits. The purposes of the loans include education, medical care, major consumer purchases, business investments, financial emergencies, and various housing investments. The housing purposes include purchase of a house plot or small farm, down payment on a house, home improvements, and room additions to an existing house for rental income. Society officers interviewed and previous studies indicate that nearly 80 percent of loans are for these housing purposes. Loans are guaranteed by two or three members. No collateral is usually required.

Some of the larger societies have share deposits in excess of loan demand, but many of the smaller societies, especially those with low-income members, are short of capital and members must wait some months before receiving their loan proceeds. Many years ago there was an inter-lending program among the savings and credit societies, but it was discontinued because of loan repayment difficulties. The Kenya Union of Savings and Credit Co-operatives, Ltd. (KUSCCO) plans to manage a new inter-lending program for its member societies (presently

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[18] References include Ministry of Co-operative Development, KUSCCO, and SACCO documents and interviews.

600). Since SACCOs do not borrow from one another and seldom borrow from the Co-operative Bank or other banks, they are financially self-contained. Perhaps for the larger and stronger societies, this independence may be satisfactory, but for the newer and less financially viable societies, mutual assistance would be beneficial.

Approximately 15 of the district cooperative unions have banking sections that accept deposits and make loans to members. It is the policy of the Ministry of Co-operative Development to have these converted to SACCOs in the near future. There are no other cooperative rural banks in Kenya.

F. Co-operative Housing Societies[19]

There are approximately 80 housing societies in Kenya now compared to only 16 in 1968. The National Co-operative Housing Union (NACHU) was registered in 1979, but a staff was first hired in 1983. Since then, NACHU has developed the capability to provide a broad range of technical services to its members.

Presently, NACHU is assisting housing societies with 25 projects having a total of 5,450 housing units. Most of the projects are to be funded by the GOK/USAID Private Sector Housing Project with Housing Guaranty loan proceeds.

Most housing societies have been created by the members of savings and credit societies. In some cases all members belong to both societies, but usually only those interested in a house in a cooperative housing society estate join the housing cooperative.

Financing has been a severe constraint to the development of cooperative housing projects. Members strive to buy land over a period of years. Construction financing is difficult to obtain on any terms and impossible without clear title. The Co-operative Bank has begun to provide construction financing, but the process needs improvement. Only two projects have been funded to date. Mortgage financing is available to individuals with title deeds. No financial institutions are making mortgage loans to housing cooperatives with single or unitary titles, although some have expressed a willingness to do so. The Co-operative Bank could provide mortgage loans through its financial subsidiary if the Central Bank and Ministry of Finance would allow it to become operational and capital would be provided.

Recognizing the need for capital mobilization for housing in the cooperative sector, NACHU is working toward the formation of a "National Cooperative Housing Fund." NACHU's plan includes both generation of capital within the cooperative system, including the Co-operative Bank SACCOs and NACHU, and inflows of capital from other resources including at least HFCK and Savings and Loan Kenya.

Many members of cooperative housing societies borrow from SACCOs for downpayments and other purposes related to the development of their cooperative housing project.

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[19] NACHU documents and interviews provided the information for this section.

G. Other Financial Institutions and Considerations

As of 1986 there were 42 life and/or casualty insurance companies in Kenya. Some of the assets of these companies are invested in real estate including housing. Several companies are in development, e.g., Kenya Reinsurance Corporation, and/or provide mortgage insurance to policy holders, e.g., Kenya National Assurance Company. Interest rates are in the 13 to 17 percent range with maximum repayment periods of seven to twenty years. More favorable interest rates and terms are available to employees of some of the companies. None of the insurance firms buy mortgages or mortgage-backed securities. There is no secondary mortgage market in Kenya, although it has often been proposed.

The large pension funds and the social security fund have nearly all their funds in government securities and other conservative investments with little in housing. There were investments in nonbank financial institutions up to a few years ago and today some funds are deposited with these institutions, thus indirectly providing capital for housing construction and mortgages.

Mortgage loan borrowers are required to purchase life insurance to assure the loan repayment, and fire insurance of the mortgaged house is commonly required. However, Kenya does not have mortgage default insurance, although it has been proposed and considered several times in recent years. Because there is not such insurance, lenders usually require large down payments and lend only to individuals with secure wage/salary employment and excellent credit standing. Moreover, since the house is the collateral, free and clear title is a requisite. Since second mortgages are uncommon, even well-established wage/salary workers have difficulty borrowing for home improvements.

H. Summary of Conclusions

The number and variety of financial institutions have increased greatly in recent years. While the financial markets have vibrated some, overall they remain viable. Through the nonbank finance institutions and building societies, substantial amounts of capital have been mobilized for housing construction and mortgage financing. The demand for those funds seems to have kept pace, thus there is little if any excess liquidity.

Cooperatives also have grown remarkably fast in recent years, especially savings and credit societies and housing societies. The Co-operative Bank has grown significantly by most measures. However, it has not become the important source of capital for cooperatives as intended by the government and its owner/member primary societies. Thus, cooperative members and the cooperatives themselves are unable to borrow as much or as favorably as they would like for housing purposes.

Presently, however, linkages do not exist between the cooperative finance institutions and other finance institutions. The Co-operative Bank is the logical institution and is well-placed to be able to provide such a linkage so that capital from other sources can flow into the cooperative systems, including for housing. While there appears to be little excess capital now, financial markets usually change significantly over time. Presently, there are few incentives or other motivations for building societies or nonbank finance institutions to invest their capital in the

cooperative sector for housing purposes. NACHU's proposed National Cooperative Housing Fund could facilitate such investments.

Savings and credit cooperative societies are often perceived as a bridge between formal sector finance and informal sector workers and their housing. As indicated above, external capital is not flowing into Kenya's savings and credit societies. The lending that is taking place for housing is limited by the existing resources. The demand for cooperative and other housing is high and since capacity of SACCOs the respond is contrained, mechanisms to facilitate the flow of funds into cooperative sector for housing are likely to extend the benefits of cooperative finance and housing to many informal sector workers and their families not presently catered for.

IV. PROPOSED PILOT HOUSING FINANCE PROJECT THROUGH SAVINGS AND CREDIT SOCIETIES

A. Purpose, General Approach, and Framework

The intent of the proposed pilot project, HDRF, is to demonstrate the feasibility of this approach and so ultimately to lead to the establish of a permanent credit mechanism which provides appropriate housing finance for low-income workers in the formal and informal sectors to enable them to upgrade their housing and incrementally construct new housing as their needs and incomes warrant.

The general approach to achieve this purpose is to create a Housing Development Revolving Fund HDRF to expand the lending capability (both amount and term) of SACCOs. The HDRF would provide medium-term loans for various housing purposes through targeted savings and credit societies. The HDRF is to be implemented on a pilot basis using the earmarked $3 million from the HG loan. To complement this financing mechanism, there are proposals for mobilizing local resources from domestic finance institutions and from the members of the cooperative societies, and over the longer term, for promoting the creation of community-based credit societies.

The framework for implementing this general approach is comprised of existing housing and cooperative organizations plus the expanded network of community-based savings and credit cooperative societies. The key organizations and their proposed major roles are:

- Ministry of Co-operative Development: policy promotion, registration, regulation, training, and technical assistance re existing and new cooperative societies and the co-operative bank (no change in present roles)

- Co-operative Bank: construction financing for cooperative housing projects, mortgage financing of cooperative housing projects through affiliated organization, and management of housing development revolving fund

- Kenya Union of Savings and Credit Co-operative Societies, Ltd. (KUSCCO): promotion and development of new societies and management of housing and development revolving fund

- National Co-operative Housing Union (NACHU): sponsorship, development and technical assistance to cooperative housing projects and promotion, training and management assistance to new societies and to SACCOs in their housing lending.[20]

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[20] This role may be redefined, depending on the decision taken by government regarding a financial mechanism for NACHU proposed in the draft "National Cooperative Housing Policy" (July 1988).

- Savings and Credit Co-operative Societies (SACCOs): borrowing from housing development revolving fund for on-lending to members, mobilizing resources through shares and deposits, and fostering co-operative housing societies for members

- Co-operative Housing Societies: developing and managing housing projects for members (no change in present roles)

There also are supporting and enabling roles for various institutions, including the Ministry of Lands and Housing, Ministry of Local Government and Physical Planning, National Housing Corporation, and local authorities.

B. Institutional Relationships

The National Housing Corporation's role in this proposed program structure is to manage the allocation of Housing Guaranty Program loan funds for the pilot project HDRF, which is itself a subproject of the Private Sector Housing Project. Proposed relationships are shown schematically in Figure 6.

The **Ministry of Co-operative Development** has central responsibility for policy, oversight, registration, promotion, training, technical assistance, and coordination among government agencies and with the cooperative organizations. Since these are the regular responsibilities of this ministry, nominal additional inputs and changes in operations are anticipated. An important exception would be if the ministry were to embark on the proposed major program to foster the establishment of community-based savings and credit societies.

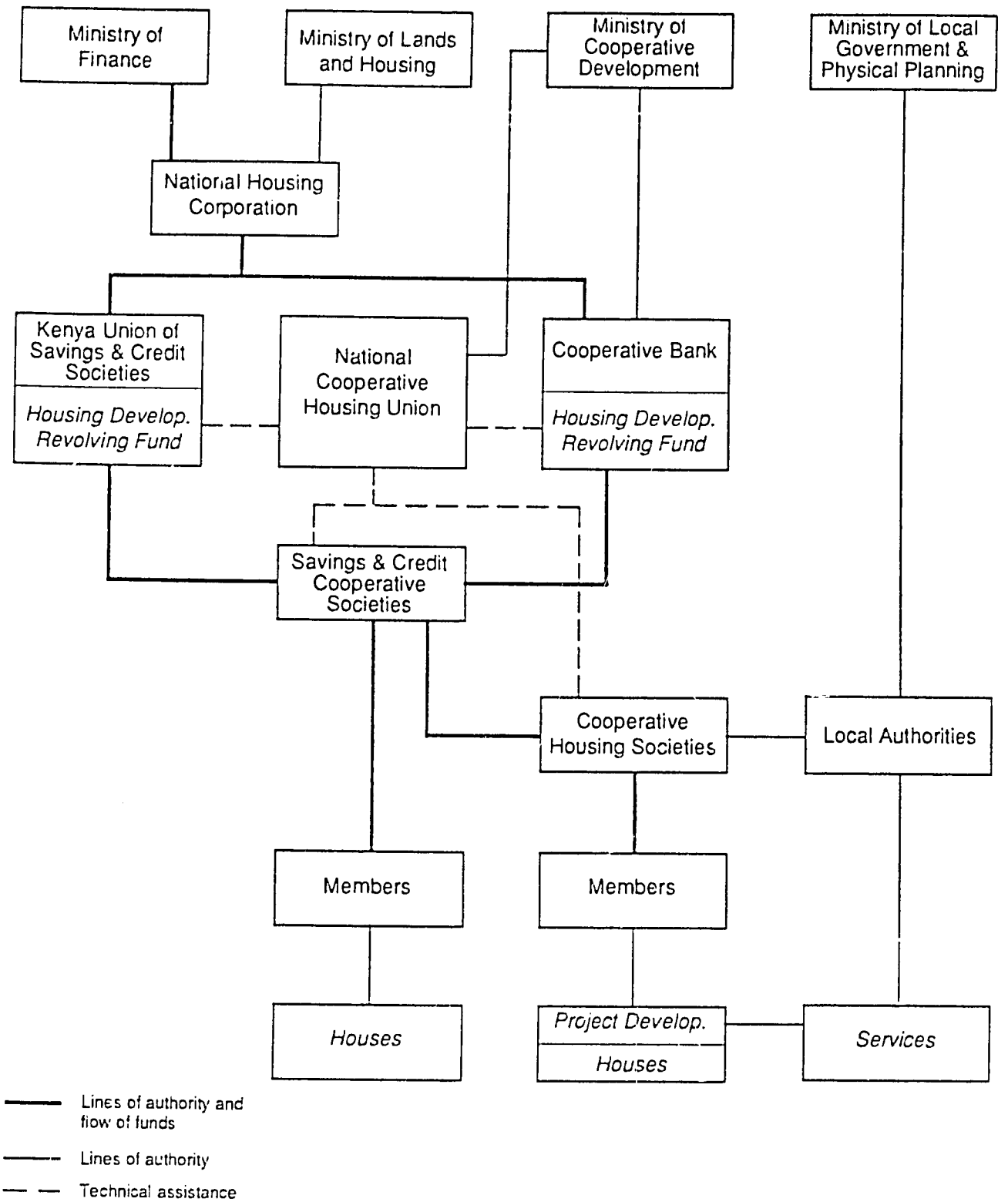
The **Co-operative Bank** has responsibility for greatly expanding its recently added function to provide construction financing to housing cooperatives. Also, its finance subsidiary should be activated to provide mortgage financing to housing cooperatives and their members. To undertake this mortgage funding requires approval of the Ministry of Finance, and requires the Central Bank and other agencies to provide the enabling legal, management and financial powers. Additional sources of funds may be required. The Housing Development Revolving Fund is another such new program proposed for the Co-operative Bank on a demonstration basis at least.

KUSCCO is also proposed to have responsibility for managing part of this revolving fund for its member credit societies. Loans are to be made from this revolving fund to primary savings and credit societies for on-lending to their members for qualified housing purposes. KUSCCO plans to establish an interlending program for its 600 member societies. Presently, KUSCCO provides bookkeeping services to more than 400 societies on a contract basis. These experiences should be useful in enabling KUSCCO to properly manage a share of the Housing Development Revolving Fund.

Since less than one-half of the 1,300 credit societies are members of KUSCCO and management of the revolving fund would be an appropriate function of the Co-operative Bank, it is proposed that both organizations manage similar home lending programs on a demonstration basis to determine which is more effective. Ultimately, the revolving fund could

Figure 6

Institutional Relationships in Pilot Housing Development Revolving Fund Project



be the responsibility of the more effective manager; however, it is also possible that, because of institutional capacity, the expanded program would also remain split. The results of the pilot project would inform this and other decisions regarding future implementation of this type of program.

The roles of NACHU and the SACCOs are complementary. Since it is envisioned here (and by Government) that a community-based savings and credit societies be created and moreover that members of credit societies interested in developing major housing projects do so by establishing housing cooperatives, NACHU's membership may grow manifold. Moreover, given the proposed expansion of construction and mortgage financing through NACHU's proposed National Cooperative Housing Fund, many more cooperative housing projects are likely to be implemented with NACHU's assistance. Thus, NACHU needs to plan for expansion of its membership services and sponsorship of cooperative housing development projects.

NACHU's role in the pilot project for this proposed housing development revolving fund at a minimum should be the provision of technical assistance to those involved in housing development projects. The nature and extent of this assistance will vary by the size and character of the cooperatives' projects. Some form of Technical Assistance to KUSCCO and the Cooperative Bank by NACHU is also envisioned. The nature of this assistance (and indeed, of NACHU's role as well as of the other involved will depend on policy decisions to be taken by Government.

Obviously, NACHU should continue to provide a full range of direct services to the societies engaged in major construction projects. Also, when SACCOS are making loans to individual members for housing purposes, they can benefit by NACHU's information and advice through printed handouts and perhaps telephone inquiries or even brief office visits with designated technicians (depending on NACHU's staff availability). It is recommended that NACHU, KUSCCO and the Cooperative Bank enter into an agreement for NACHU to provide this assistance to SACCO members.

C. Participation Guidelines and Criteria for Pilot Project

As described above, it is suggested that the Housing Development Revolving Fund (HDRF) be managed on a parallel basis by the Co-operative Bank and KUSCCO. Eventually, participation in the revolving fund should be open to all financially viable savings and credit cooperative societies (SACCOs). Criteria and procedures should be tested with SACCOs in preparation for a pilot project. Then, a larger number of SACCOs, approximately 40-60[21], should be selected to participate in the two- or three- year HDRF pilot project. The participants should be selected based on explicit criteria approved by the Ministry of Co-operative Development, the Co-operative Bank and KUSCCO. These should be developed through a project Steering Committee (see chapter VI of this report).

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[21]This suggested number has been arrived at based on a balancing of two competing concerns: (1) a desire to monitor and assure adequate administrative controls and (2) a desire to implement such a project within the existing capacity of SACCO's.

A diversity of SACCOs should be selected for in inclusion in the pilot project. Diversity should be reflected in terms of size, geography, and characteristics of members. Preliminary selection criteria are recommended to include the following:

1. Expressed interest in participating in the HDRF.

2. Well-managed, financially viable society.

3. A substantial percentage and number of members below the urban median household income (presently estimated at Sh 3,000 per month).

4. Wide geographic distribution (including countrywide societies, Nairobi, Mombasa, other cities, and most, if not all, of the other districts).

5. Special membership groups with particularly appropriate housing need situations (e.g., public school teachers, low-wage civil servants, informal sector workers).

6. Countrywide SACCOs to be selected based on knowledge of their individual capabilities, needs, interest in participating, membership composition, etc.

7. SACCOs with available land for small housing projects to be given some priority in order to have some quick-start experiences.

It is proposed that about 5% of the 1,300 SACCOs be selected in participate in the pilot project. At the outset perhaps 5-10 societies would be involved. When the testing and refinement stage is completed participation should be expanded up to the proposed 60. In terms of HDRF loan activity, these societies would have up to Sh 51 million from the Housing Guaranty loan plus other resources. Most loans are likely to be in the Sh 20,000 to 50,000 range, with an average of Sh 30,000. Thus, the Sh 51 million alone would fund 1,700 loans, or an average of 28 for each of the 60 societies. This seems manageable considering that all but one of the 31 countrywide societies have more than 200 members, about one-half of the local societies have more than 100 members, and nearly one-fourth have more than 200 members.

D. Lending Guidelines and Criteria

Eligible borrowers would be members in good standing of registered savings and credit cooperative societies. If the loan applicant has a loan outstanding, it will be paid in full from the proceeds of the new loan.

SACCO members may borrow from the HDRF for housing purposes only. Eligible purposes include:

- purchase of a house plot for owner occupancy.
- Extension of water supply, electricity, or sanitation lines to the loan applicant's house;
- Building materials for construction or improvement of the applicant's house.

- Craftsmen and laborers to assist with house construction or improvement.

In Kenya it is common practice for even low-income households to rent out rooms in their houses if at all possible. Frequently, the building is expanded for this purpose. Sometimes additional housing units are built. This practice contributes to the housing supply affordable by the poor and provides income to the owners, who often are also poor. In all likelihood this practice would be encouraged by HDRF.

SACCO members presently borrow amounts up to three times their shares and deposits, repayable in monthly installments for up to four years (most SACCOs limit terms to three years), at one percent interest per month on the unpaid balance. While most such loans are for housing purposes, the amounts that can be borrowed tend to be insufficient for major housing purposes. Most loans are for less than Sh 15,000 and few are for more than Sh 30,000. The key limiting factor is the provision that loan amounts cannot exceed three times the borrower's shares and deposits. This provision helps to ensure the security of the loan, its affordability by the borrower, and capital availability for loans to members without long waiting periods.

By providing special sources of internal and external funds for the HDRF, capital availability should be adequate to allow larger loans. Affordability to the borrower is improved by longer repayment periods. Security of the loan would be ensured by co-signers and possibly also a lien on the house and land and/or some form of loan repayment insurance or guaranty.

However, it should be noted that this infusion of funds will be a new experience for most SACCOs and that there are some risks involved. The performance of the SACCOs to date seems to warrant any risk (both in the funds and in the SACCOs themselves) this might be involved; however, the careful structuring of a pilot project, such as is recommended here, is also warranted in order to minimize the risk.

HDRF loans are proposed to be made for three to seven years, with repayment in equal monthly payments including one percent per month interest on the remaining balance. The maximum amount of the loan would be determined by the borrower's household income, term of the loan, and share of income affordable for monthly loan repayments. As a guide, 25-30 percent would be the maximum share of household income considered affordable for loan repayment. However, each SACCO loan committee would be expected to verify each applicant's ability to repay the loan. The following table shows monthly repayments by loan amounts and repayment periods. For example, at the urban median household income of Sh 3,000 and 30 percent for monthly loan payments (Sh 900), the maximum loan would be Sh 40,000 for five years or Sh 50,000 for seven years.

It may be that a higher rate of interest, say 1.25 percent per month (i.e., 15 percent per year) on the declining balance would be affordable and acceptable on these proposed longer term loans. Also, some SACCOs may wish to apply a loan to shares/deposits multiplier to limit the maximum loan and so reduce risk. A multiplier of four to six might be considered.

Figure 7

MONTHLY REPAYMENTS ON LOANS FROM REVOLVING FUND

Period:	3 Years	4 Years	5 Years	6 Years	7 Years
Loan Amount					
20,000	664	526	444	391	353
30,000	996	790	667	586	529
40,000	1,328	1,053	889	782	706
50,000	1,660	1,316	1,112	977	882
60,000	1,992	1,580	1,334	1,173	1,059
70,000	2,325	1,843	1,557	1,368	1,235
80,000	2,657	2,106	1,779	1,564	1,412
90,000	2,989	2,370	2,002	1,759	1,558

Interest Rate: 12 percent with equal monthly payments

E. Administrative and Accounting Procedures

Under this proposal, the National Housing Corporation will deposit Housing Guaranty loan funds allocated to the Housing Development Revolving Fund (HDRF) in the Co-operative Bank. Quarterly or monthly transfers will be made from NHC's account to the HDRF accounts of the Co-operative Bank and KUSCCO based on their respective loan demand projections submitted to NHC one month previously. These advances are likely to be necessary until internal resources are generated for the HDRF.

It is proposed that at the beginning of each month, the bank and KUSCCO receive requests for loan disbursements documented by copies of approved housing loan applications from each of the participating SACCOs. The bank and KUSCCO will each review and approve their respective loan requests. These monthly actions are intended to allow individual loans to be consolidated for more efficient processing while not delaying loan disbursements unduly.

Each month the bank and KUSCCO will advance loans to the SACCOs based on the approved requests of the month previous. Each SACCO then makes loans to its members in accordance with the terms of the approved applications and progress on the house project (if installment payments are made). It is the responsibility of the SACCO housing committee to ensure that the loan proceeds are used only for the approved housing purposes. SACCO members will repay these HDRF loans in the same ways they make other loan payments. The SACCOs will keep separate accounts and other financial records for the HDRF. Each month the SACCOs will make repayments on their loans from the bank and KUSCCO.

The bank and KUSCCO will report quarterly to NHC on their HDRF transactions and other related activities. They will transfer funds into NHC's account at the Co-operative Bank according to agreed upon schedules which enable NHC to repay its Housing Guaranty loan.

KUSCCO will be able to roll most reflows over into new HDRF loans. The HG loan is viewed as the initial source of funding to be augmented by mobilization of domestic resources and reflows to enable the HDRF to be a permanent source of financing for low-income housing.

Loan repayment will be the absolute responsibility of the revolving fund's borrowers regardless of its collections from its sub-borrowers. Thus, the Co-operative Bank and KUSCCO will be obligated to repay NHC on schedule; the SACCOs will be obligated to repay the bank and KUSCCO; and members will be obligated to repay the SACCOs. The loan agreements among the parties must include such guarantees. As long as members pay in full on schedule, cost recovery should be complete and the fund will, in fact, revolve. Ensuring that members repay their loans is the key to a viable HDRF.

F. Loan Guaranty Mechanism

Kenya SACCOs, like credit unions throughout the world, require cosigners or guarantors for all loans; seldom do they require property as collateral (except for vehicle loans in some countries). Since employer-based SACCOs nearly always have loan payments deducted from wages/salary by a check-off method, the loan repayment is further ensured. The security issue increases in the cases of non-employment based SACCOs--potential major participants in this program as they increase in number. SACCOs could make mortgage loans in some cases, but in most cases this would be difficult or impossible because most borrowers do not have clear freehold or leasehold title. Second mortgages are rare in Kenya, although they are a possibility when the title is adequate.

Kenya does not have mortgage default insurance or any mortgage guaranty system (except mortgage life insurance). Proposals have been made previously for mortgage default insurance. It is recommended that if the HDRF is implemented, these previous studies be reviewed and the proposal revived. At the present time, however, it appears that for HDRF loans, it would be best to retain the current practice of requiring it would be best to retain the practice of requiring cosigners or guarantors. In addition, it may be possible to add to the number of cosigners required and/or to add a lien against the property.[22] While a lien on a property with a less than clear land title is not as secure as a standard mortgage, it could have effect nevertheless. The most appropriate type of lien to use and how is an issue. For definition at such time as a decision is made to move toward implementation of a pilot project. In this context, the issue of how best to insure loans on houses without clear title should also be addressed.

G. Potential Costs of Program to Participants

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[22]Webster's Ninth New Collegiate Dictionary defines a lien as "1: a charge upon real or personal property for the satisfaction of some debt or duty ordinarily arising by operation of law 2: the security interest created by a mortgage."

G. Potential Costs of Program to Participants

NHC would have the staff costs entailed in making loan disbursements through a bank account transfer system to the Co-operative bank and KUSCCO on a quarterly basis, monitoring of bank and KUSCCO HDRF operations, and processing loan repayment records based on loan transfers back to NHC's HDRF account at the Co-operative Bank. It is highly unlikely that NHC would encounter any significant problems in this subprogram since the key financial responsibility is with the bank, KUSCCO, and the societies. None of the technical assistance and training required would be provided by NHC. Thus, NHC responsibilities could be handled by limited amounts of time of existing staff. No financial contingency or reserve accounts would seem to be necessary.

As central managers of the HDRF, the Co-operative Bank and KUSCCO have important responsibilities to promote the program, draw down the funds from NHC, make the loans to the SACCOs and, of course, collect SACCO repayments and then repay NHC. Since most of the loan collections will revolve into new loans to SACCOs, either the bank and/or KUSCCO will be managing the HDRF indefinitely. If one or the other is not successful in managing this fund, the management responsibility would become the full responsibility of the more successful institution, if a larger program were to be undertake.

It is expected that the bank could manage this HDRF just as it manages at least a dozen other special programs, with separate accounts. In the pilot project, it appeases this could be done by existing staff.

KUSCCO, on the other hand, might need additional staff for financial management, unless there are properly trained personnel with available time in the bookkeeping services operation. In scale, each of these institutions would be working with about 20-30 savings and credit societies, processing monthly loan requests (probably not from all each month), and processing loan repayments. The promotional, financial technical assistance, and training activities would entail additional bank and KUSCCO staff or consultants on a short-term basis.

In the central management role for the pilot project, it is essential that the bank and KUSCCO work closely with the SACCOs to ensure that the loans are made and used properly and, very importantly, that loan repayments are made fully and on schedule. Kenya credit societies have an excellent record of managing their internal funds, but they have virtually no experience with a program such as the HDRF. Therefore, the bank and KUSCCO will need to have some form of contingency and/or reserve accounts to cover bad loans and seek recovery through legal processes. It would not be appropriate for either the Co-operative Bank or KUSCCO to provide technical assistance regarding housing development directly to SACCOs or their members, rather arrangements should be made for NACHU to provide such assistance as it presently provides to housing cooperatives.

The greatest responsibility for managing the pilot project will fall on the SACCOs collectively. Each SACCOs officers and committee members, with staff assistance in the larger SACCOs, will be responsible for promoting the program, reviewing and acting on loan applications, arranging loan agreements with either the Co-operative Bank or KUSCCO, requesting disbursements monthly or less frequently as members' approved loan applications warrant,

monitoring the use of the loan to verify compliance with HDRF loan purposes, collecting monthly payments from borrowers and acting if payments are delinquent, making monthly repayments to either the Co-operative Bank or KUSCCO, and maintaining complete and accurate accounts and records.

While SACCO activities are numerous and varied, the work load should not be onerous because there are not a large number of loans per SACCO, (i.e., an average of 28), which will in most cases become active over many months. Moreover, the work will be divided among many SACCO members serving as officers and committee members. Bookkeeping and reporting are the most difficult tasks for SACCO volunteers. Thus, it is essential to provide forms, instructions, guidelines, payment tables, and examples which are clear and concise, as well as a good initial training program, with follow up.

Verification of actual uses of the loans is a very important responsibility. In the first instance, it the job of the SACCOs housing committees to monitor the use of the loan proceeds. In addition, there should be monitoring and technical assistance provided to members of SACCOs in planning their house construction/improvement, estimating building material quantities and costs, and doing the construction. This assistance should be similar to agricultural extension services in the sense of providing practical information, advice and demonstration. The details of these monitoring and technical assistance functions will be determined in phase two. Clearly NACHU is the most appropriate organization to provide this assistance. As discussed above, arrangements should be made for NACHU's services without overloading its staff.

Overall, the proper management of the pilot program HDRF should be achieved by all participants without great difficulty because the required functions are similar to those already there for other loan programs of all the participants except KUSCCO. This need not be an expensive program to manage for any of the participants. In fact, few if any additional staff should be required.

A key concern is that the interest rate on the HDRF loans to SACCO members should be the same as loans for other purposes, 12 percent a year. Since the Housing Guaranty loan to the NHC is likely to be about 10 percent, the difference of two percent will be available to divide among the project administrators: NHC, the Co-operative Bank, KUSCCO, NACHU (as appropriate) and the SACCOs. All participants will want to cover their costs with fees and or interest rate spreads, of course, and a preliminary analysis indicates this should be possible. If a decision is made to go forward with a pilot project, more precise cost estimates can be made, as details about the administrative and other arrangements are worked out.

V. HOUSING DEVELOPMENT COLLABORATION BETWEEN SAVINGS AND CREDIT SOCIETIES AND LOCAL AUTHORITIES[23]

A. Issues, Prospects, and Opportunities

Under the Terms of Reference for this study. We were required t make a preliminary assessment of the potential for collaboration with Local Authorities. During the course the study, it was confirmed that local authorities (LAs) have very limited financial resources.coupled with and growing demands for facilities and services. The backlog of needs in most towns is substantial, thus, little is being done to provide facilities and services for new development. Several projects have been undertaken and others are planned to improve the capabilities of LAs, but the situation in most communities remains severe.

The Ministry of Local Government and other government agencies recognize that LAs lack adequate local revenue sources to fund capital development projects and their operating budgets. Moreover, there is increasing recognition by government officials that the central government and the LAs need to foster more private development by concentrating on providing adequate public services.

Cooperatives of various kinds are major social and economic forces in communities throughout Kenya. The savings and credit societies (SACCOs) are key participants in the financial markets of most communities. SACCO leaders and other members tend to be active in community affairs in many towns. Thus, SACCOs are effective in getting things done in their communities when they are so inclined.

B. Potential Collaborative Actions

1. Description

Most SACCO members are interested in investing in housing, initially by land purchase (if they do not already own plots) and then house construction/ improvement. Individually, these members can only take care of their own needs and desires with loans from their SACCOs. The proposed Housing Development Revolving Fund is intended to enable these individual members to meet their housing finance requirements. Those credit society members wishing to participate in major housing projects should create cooperative housing societies and seek assistance from NACHU regarding design and development, including cooperation from the LAs in providing facilities and services.

Between the individual actions and the cooperative housing projects, there is an important third option: SACCO members, in many instances, would wish to participate

[23]This part of the study was provided for in the Terms of Reference to begin to explore how SACCOs and local authorities might work together in providing low-income housing for SACCO members.

in small groups to buy land and build their houses. Such small projects, (say 5 to 10 houses but perhaps up to 20) usually would be able to buy small parcels of land at good locations requiring only short extensions of roads and utilities. The servicing of such plots by most LAs would be well within their capabilities, especially if the beneficiaries were able to arrange the financing through individual loans from their SACCOs. Nevertheless, development of even small housing projects is difficult. Thus, these groups would need technical assistance, preferably from NACHU. In effect, these in-fill housing projects would be taking advantage of existing roads, water supply, sanitation, and other urban services by developing land near but not on existing roads, thus enabling affordable purchase prices. In certain places, it may be possible for some SACCO members to be allocated a block of plots as part of a larger housing scheme of the local authority.

2. Feasibility and Practicality

For this scheme to work, all the key participants must see significant benefits for themselves. Clearly, there would be many SACCOs with interested groups of members willing and able to work together to provide their own housing. Getting them to organize and operate collectively is essential to their success. Finding and acquiring suitable sites would seem to be possible without much difficulty.

The collaboration of the Local Authority is the central issue. Because most local authorities lack financial and management resources, they are not able to meet their capital improvement and operating budget needs. Thus, it is unrealistic to expect them to finance extensions and improvements to roads, water supply, drainage systems, and sanitation systems for small housing projects. However, some local authorities probably could be convinced that making the improvements would be in their community's interest if the SACCO members were to agree to pay for the share of the costs which the local authority would not normally incur.

Construction financing for these small housing projects would be obtained from the HDRF in the same way as individual loans. The basic difference is that each group of 5-20 houses would become eligible for long-term financing from the Co-operative Bank or building societies. When such financing was obtained, the HDRF would be paid in full. This long-term financing might prove difficult to get if the houses do not qualify for standard mortgages. In such cases, special loan criteria and procedures would be necessary. It is the intent of this scheme to make these arrangements, but the specifics have yet to be worked out. Moreover, the Co-operative Bank does not yet make long-term loans, although it has plans to do so. The most promising arrangement is the National Cooperative Housing Fund proposed by NACHU. Financing from building societies for these houses might require that the owners join the building society and save there for a period of time before becoming eligible for loans. This would reduce the value of their participation in the SACCO. New arrangements might be necessary to facilitate financing from the building societies.

Although there are some troublesome issues yet to be resolved, this housing scheme seems to be sufficiently promising to warrant further investigation and testing through a small initial effort, such a testing out could be considered under the pilot HDRF.

C. Proposed Action Plan for Structuring of Local Authority/SACCO Collaboration

A pilot program of collaboration between SACCOs and local authorities could be designed under the general direction of the MoCD, under the Pilot HDRF(See Figure 4). NACHU's active participation would be desireable and should be sought because of its substantial experience with similar projects. The action plan for structuring this effort would include consideration of following:

1. Determine how best to select members of the participating SACCOs as beneficiaries of the pilot program, how they should be organized, how they should make decisions and take actions, how they should handle their finances, etc. Discuss preliminary conclusions and recommendations with selected SACCO officers and revise as appropriate.

2. Investigate further the powers and responsibilities of local authorities and design approaches for their provision of appropriate infrastructure extensions and improvements with financing shared by the authorities and benefiting SACCO members. Promotional means of convincing the local authorities to collaborate also will be worked out. Discuss with selected SACCOs and officials of local authorities, refine as agreed, and submit conclusions and recommendations to the Steering Committee for approval.

3. Develop proposals for long-term financing of these groups of houses by the planned National Cooperative Housing Fund, Co-operative Bank and building societies including the conditions and terms of the loans, with detailed recommendations regarding loan security issues. Discuss preliminary conclusions and proposals with the Co-operative Bank, several building societies, and the participating SACCOs, and then revise proposals as feedback warrants.

4. Identify illustrative sites for such housing schemes, estimate land costs, determine off-site and on-site improvements needed and their costs, design site layouts, design prototype incremental house plans and cost out, conduct overall feasibility analysis, and discuss with selected SACCOs.

5. Design a monitoring and evaluation plan.

VI. PREPARATION REQUIREMENTS FOR HDRF PILOT PROJECT

This initial study has defined the opportunities for providing housing for lower income households through savings and credit societies to more appropriately mesh with the existing strong pattern of informal housing and to finance the shelter needs of the informal sector. An overall program has been recommended which focuses on the establishment of a Housing Development Revolving Fund. This fund is to be managed by existing cooperative organizations. An institutional development program for the expansion of savings and credit societies in the informal sector also is proposed.

If a decision is taken to proceed with developing a pilot HDRF project, then detailed development of an implementation programme will be required. Even though the pilot project is envisioned as building upon existing capacity, it nonetheless will represent a new undertaking and must, like any other, be carefully prepared if it is to succeed.

It is beyond the scope of this study to develop a proposed implentation scheme for a pilot HDRF. However, what follows below is an Action Plan in outline form, with suggested tasks identified and responsible actors designated. It is anticipated that pilot project can be prepared with a minimum of outside help: nonetheless, some technical assistance is likely to be necessary in the areas specified below. It is recommended that the primary responsibility for preparing the HDRF pilot project be vested in a multi-organizational Steering Committee (HDRF/SC) -- to be convinced by the Ministry of Cooperative Development and chaired by a senior officer of MoCD. The HDRF/SC should be composed of representations of the interested organizations.

The work required for the establishment of the pilot HDRF can be divided into four phases. These are:

- **Preparation Phase**
- **Implementation Design Phase**
- **Implementation Testing Phase**
- **Full Implementation Phase**

Each of these phases is set out, with its associated tasks, in Figure 8. The approach that has been taken in developing this Action Plan is to move forward toward the implementation of the HDRF pilot project in employment-based SACCOs. During the Implementation Phase, once the pilot project is operational in the selected SACCOs, the more experimental aspects (introduction of informal sector SACCOs and small project lending in conjunction with Local Authorities) that have been identified as possible components of an HDRF can be further assessed and, if desired, tested. However, it is recommended that the core HDRF, as it is proposed in this study, be well established first, before the introduction of these additional elements into the pilot project

Figure 8

Establishment of a Pilot HDRF: An Action Plan

Task			Responsible Party
1.	PREPARATION PHASE		
	a.	make policy determination re institutional roles	MoCD
	b.	convene HDRF Steering Committee	MoCD, with advice RHUDO
	c.	establish Terms of Reference for HDRF/SC	MoCD, with advice HDRF/SC[1]
	d.	review HDRF study recommendations	HDRF/SC
	e.	convene meeting to discuss HDRF report	MoCD and RHUDO, with HDRF/SC
	f.	identify other policy issues/ items for resolution and refer for action, as appropriate	HDRF/SC
	g.	review tasks for action (following), expand, modify as necessary and establish timetable for their performance	HDRF/SC
2.	IMPLEMENTATION DESIGN PHASE		
	a.	review management capabilities of Coop Bank, KUSCCO, NACHU to assume responsibilities as proposed HDRF study/affirmed MoCD (1.a above)	consultant, reporting HDRF/SC
	b.	develop selection criteria for SACCO participation	consultant, reporting HDRF/SC
	c.	recommend ways to resolve loan security issue	consultant, reporting HDRF/SC
	d.	recommend/approve loan security method	HDRF/SC and MoCD
	e.	design implementation system for HDRF, including: --flow of funds --loan criteria --procedures --institutional relations --monitoring system for fund use	consultant, reporting HDRF/SC

[1]HDRF/SC is to be convened and chaired by MoCD. Recommended members include NACHU, KUSCCO, and the Cooperative Bank, as well as other participants in the proposed HDRF. The HDRF/SC would guide, as indicated in Figure 4, the development of a viable pilot project.

Annex 1

Membership and Financial Data on

Kenya Savings and Credit Societies by District

ANNEX 1

KENYA UNION OF SAVINGS AND CREDIT COOPERATIVES LIMITED
P. O. BOX 28403, NAIROBI.

NAME OF SOCIETY	MEMBERS	SHARES	LOAN O/STANDING	TOTAL INCOME	RESERVES	TOTAL ASSETS
CENTRAL PROVINCE						
1. KIAMBU	23,814	127,628,732	120,245,524	12,634,744	5,333,946	137,805,355
2. MURANGA	9,102	49,860,691	46,572,213	4,344,599	2,417,380	55,058,658
3. NYERI	9,639	55,331,067	53,754,022	4,599,956	844,377	64,379,051
4. KIRINYAGA	5,840	33,342,248	41,069,356	3,594,985	1,420,010	45,646,051
	48,395	268,162,738	261,641,115	25,174,284	10,015,713	322,882,115
EASTERN PROVINCE						
1. MERU	9,444	52,444,270	50,564,218	4,320,795	2,111,531	61,870,001
2. ISIOLO	627	4,035,532	3,948,199	353,899	417,281	4,311,664
3. MACHAKOS	13,078	54,400,311	47,650,389	3,900,383	2,488,816	55,883,127
4. KITUI	3,752	18,688,910	15,257,557	1,143,355	2,179,471	22,709,733
5. EMBU	3,482	25,025,801	24,784,754	2,324,790	1,930,303	30,011,556
	30,383	153,594,824	142,205,117	12,043,222	9,127,402	174,822,141
NYANZA PROVINCE						
1. KISUMU	11,504	55,821,519	49,232,858	5,009,693	7,151,585	65,816,576
2. KISII	11,513	75,190,995	80,607,748	6,753,248	1,231,453	113,910,565
3. SOUTH NYANZA	9,675	49,383,028	47,819,239	4,494,415	5,562,963	57,023,679
4. SIAYA	4,689	24,151,979	21,621,523	1,922,942	1,922,942	27,491,172
	37,381	204,547,521	199,331,368	18,208,404	15,868,943	270,241,992

KENYA UNION OF SAVINGS AND
KENYA UNION OF SAVINGS AND CREDIT COOPERATIVES LIMITED
P.O. BOX 28403, NAIROBI

COAST PROVINCE

NAME OF SOCIETY	MEMBERS	SHARES	LOAN O/STANDING	TOTAL INCOME	RESERVES	TOTAL ASSETS
1. MOMBASA	25,033	231,334,964	155,497,744	19,222,438	11,591,748	255,018,460
2. KWALE	3,231	17,109,514	12,201,338	1,639,994	10,856,561	23,323,443
3. KILIFI	4,514	25,559,696	20,479,756	2,295,349	25,510,853	26,295,992
4. TANA RIVER	2,309	10,069,781	8,055,425	1,370,415	503,464	11,076,209
5. TATA TAKTA	1,809	8,777,513	7,022,010	542,541	551,773	12,086,300
	36,896	293,351,468	203,256,273	25,070,737	58,014,404	327,800,404

Annex 2

Membership and Financial Data on

Kenya Countrywide Savings and Credit Societies

ANNEX 2

KENYA UNION OF SAVINGS AND CREDIT COOPERATIVES LIMITED
P. O. BOX 28403, NAIROBI.

	NAME OF SOCIETY	MEMBERS	SHARES	LOAN O/STANDING	TOTAL INCOME	RESERVES	TOTAL ASSETS
1.	HARAMBEE	75,245	413,562,000	311,090,500	37,529,425	7,963,221	376,777,829
2.	UKULIMA	37,948	223,674,699	208,602,036	20,511,530	11,859,716	288,616,670
3.	AFYA	34,281	259,298,684	248,881,851	26,894,589	11,762,020	262,776,898
4.	UFUNDI	26,929	98,162,980	102,835,868	10,334,254	4,698,410	114,220,393
5.	RELI	21,526	155,727,708	161,113,066	18,540,587	4,973,424	181,382,914
6.	POSTA	19,582	146,362,038	140,042,211	16,993,293	3,576,782	179,915,026
7.	ASILI	16,257	66,861,295	75,869,267	7,170,695	4,185,215	86,454,925
8.	KENYA POLICE	12,728	40,603,654	28,515,801	2,709,281	2,952,482	55,529,380
9.	MWALIMU	12,364	144,478,971	121,864,709	15,507,816	1,347,724	146,888,152
10.	ARDHI	10,163	51,373,364	44,851,388	4,256,798	1,223,188	54,362,547
11.	MAGEREZA	9,877	64,132,580	47,918,141	5,376,242	3,713,542	76,981,311
12.	KENYA BANKERS	9,308	98,752,877	91,251,547	4,093,504	6,306,606	102,282,020
13.	TRANSCOM	8,641	36,789,894	36,862,553	3,675,541	1,878,606	40,744,060
14.	STIMA	6,200	52,000,000	49,000,000	15,600,000	3,400,000	49,223,050
15.	MWITO	5,268	15,978,600	16,687,935	1,362,306	343,871	18,430,406
16.	JAMII	5,184	39,594,835	38,204,224	3,071,882	2,537,665	45,564,261
17.	ELIMU	5,076	28,[illegible]78,720	30,065,625	2,638,835	1,970,619	34,001,257
18.	HAZINA	3,953	38,253,321	42,291,285	4,583,359	3,818,463	45,045,668
19.	ULINZI	3,390	16,718,230	17,111,659	1,910,956	1,221,617	20,386,176
20.	TEMBO	3,345	69,835,790	36,668,749	8,233,212	624,504	70,540,501
21	SHIRIKA	3,112	23,046,000	24,171,000	2,347,300	978,530	26,543,000
22.	SAUTI	2,885	25,113,141	23,600,115	2,894,975	1,054,527	28,479,716

KENYA UNION OF SAVINGS AND CREDIT COOPERATIVES LIMITED
P. O. BOX 28403, NAIROBI.

NAME OF SOCIETY	MEMBERS	SHARES	LOAN O/STANDING	TOTAL INCOME	RESERVES	TOTAL ASSETS
23. SHERIA	2,485	17,705,634	16,482,904	1,671,890	2,227,761	21,757,210
24. WAHANDEGE	2,154	34,989,060	32,219,175	3,798,669	1,885,193	11,182,064
25. COMOCO	1,369	11,194,910	11,087,293	1,305,336	937,225	13,011,843
26. JOGOO	1,298	10,825,534	12,589,085	822,397	984,135	13,321,085
27. PEUGEOT	1,119	8,303,234	8,609,796	819,521	393,528	9,418,125
28. IRRIGATION	928	4,951,659	4,193,094	397,217	254,156	5,931,073
29. SHELLOYEES	746	12,869,290	12,416,394	1,545,744	480,551	13,721,646
30. GAILEY & ROBERTS	394	6,141,475	6,979,898	763,851	385,571	6,520,623
31. KHEU	29	253,170	163,630	10,845	2,508	274,214
	343,784	213,513,377	2,074,240,799	227,371,850	85,712,503	2,430,724,065

Annex 3

Principal Persons Met

ANNEX 3

PRINCIPAL PERSONS MET

Ministry of Co-operative Development

Mr A. Ligale	Permanent Secretary
Mr G. Okeyo	Deputy Commissioner
Mr S. Kirugi	Deputy Commissioner
Mr J.B. Mulika	DCO Mombasa
Mr J. Osena	DCO Muranga
Mr S. Gltachi	Office of DCO, Muranga
Mr M Gachui	Office of DCO, Muranga
Mr Mwangi	DCO Karatina

Ministry of Local Government and Physical Planning

Mr Z.P. Omwando	Head of Planning Unit

Kenya Union of Savings and Credit Co-operatives (KUSCCO)

Mr J. Bango	General Manager

Co-operative Bank of Kenya

Mr G.M. SIla	Deputy General Manager

National Housing Co-operatiave Union

Mr N. Kattambo	General Manager
Ms M. Oriaro	Financial Controller

Reli SACCO

Mr D. Otieno	Chairman
Mr D. Muema	Manager

Ukulima SACCO

Mr P.K. Muniu	General Manager
Mr C.P. Ogongo	Accountant

Afya SACCO

Mr Njoka	General Manager

BAT SACCO

Mr W. Aluang'a	Chairman
Mr S. Osongo	Treasurer
Mr C. Ogago	Secretary

Firestone SACCO

Mr M. Odhiambo	Secretary/Manager

Embu Teacher SACCO

Mr S. Njuki	Chairman

Mombasa Port SACCO

Mr C. SImba	Secretary/Manager

Jitegemee SACCO

Mr J. Mangisi	Secretary/Manager

Kisauni Housing Co-operative Society

Mr Ferunzi	Chairman

Frere Town Housing Co-operative Society

---	Chairman

Akamba Handicrafts Co-operative

Mr Nthuka	Accountant

Muranga Farmers Cooperative Union

Mr S. Kigo	Deputy Manager
Mr Njuguna	Manager, Muranga Union SACCO

Mathira Farmers Cooperative Society

Mr Mutegi	Secretary/Manager

Home Savings and Mortgages Ltd.

Mr J.H. Kariuki	Accountant

Savings and Loans Kenya

Mr Nyagah	Advances Manager

Regional Loans Building Society

Mr Mereka	Public Relations Manager

Housing Finance Company of Kenya

Mr P.I. Lumet	Public Relations Manager

USAID Office of Housing and Urban Development

Mr F. Hanson	Director RHUDO E&SA
Mr S. Giddings	RHUDO E&SA
Mr M. Lippe	Director Designate, RHUDO E&SA

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Annex 4

Terms of Reference for

This Study

ATTACHMENT 1

TERMS OF REFERENCE

Housing Finance Through Credit Unions

I. Background

As an integral part of the Kenya Private Sector Housing Program (615-HG-007), the National Housing Corporation and USAID have agreed to target up to $3 million of the $30 million in available financing for a pilot effort to address the housing problems of families who live and/or work in what is traditionally classified as the "informal sector". Although families living and working in the informal sector may actually earn a fairly decent livelihood, because of the fact that income may fluctuate from month to month, that there is no employment security, and that verification of income is quite difficult, housing finance institutions perceive them as poor credit risks and generally refuse to grant mortgage financing. Formal sector housing finance institutions in Kenya have traditionally focused their efforts on middle and upper income housing where the risks are perceived to be smaller than for low income housing and the profitability higher. Yet these formal sector housing finance institutions are generally able to mobilize considerable resources which if more flexibly invested so as to broaden the scope of housing to be financed could contribute substantially to the narrowing of the housing deficit in throughout the country.

Credit unions have existed for many years in Kenya. They are almost exclusively organized around a place of work. They typically have developed a much closer personal relationship with their membership than have the formal sector housing finance institutions. However, as a matter of policy they tend to make smaller loans on shorter terms than are usually required for purchase of completed housing units. Nonetheless, there is evidence to suggest that a considerable amount of the short-term credit extended by the credit unions actually does go into the shelter sector for downpayments and small home improvement loans. Some of the larger credit unions with substantial resources have on the other hand begun to invest institutionally in housing, i.e. by developing estates, etc.

Generally speaking, credit unions are better placed to reach a broader spectrum of families than the formal sector housing finance institutions, and can therefore potentially represent a mechanism whereby HG funds can reach into the informal sector.

II. Purpose

The purpose of this proposed activity is to assess the potential for channelling HG financing to be made available to the National Housing Corporation under the Kenya Private Sector Program to an expanded range of beneficiaries than is currently served by both the formal sector housing finance institutions or by credit unions and by so doing help to mobilize some of the resources generated and/or accumulated in the informal sector for housing. If the initial assessment is positive, this effort would also include the development of means by which a program can be implemented.

III. Scope of Work

Specifically, the consultant team will:

1) Analyze the present capability of the cooperative financial sector (including credit unions) to mount a program which will channel HG resources as well as their own funds to housing development (including land purchase, sites and services schemes, core houses and fully completed "starter" houses) and home improvement loans for a wide spectrum of beneficiaries. This includes an assessment of the current financial strength of the credit unions and of the nature of their current activity in the housing sector.

2) Develop a framework for the implementation of the program, including the delineation of the following:

   a) organizational, administrative, and financial relationship between and among NHC, and the cooperative financial sector including credit unions;

b) criteria for individual credit union participation

c) criteria for individual lending, including ways to reduce the required savings to loan ratio, reducing security requirements for loans (e.g. land title), and extending loan life;

d) administrative/accounting procedures, including record keeping, for the program;

e) analysis and recommendations concerning administrative costs to credit unions and NHC;

f) analysis and development of recommendations as to the appropriate form of guaranty to be required for lending under the program.

3) Study the feasibility and practicability of credit unions collaborating directly with local authorities which have demonstrated an interest and a capacity to develop low cost housing programs and if such collaboration seems possible, recommend a specific areas in which such collaborative efforts might be most productive (e.g. credit unions might be able to finance the structures in a housing project while a local authority finances infrastructure). Propose an action plan to move toward the structuring of a pilot program if deemed feasible.

4 Explore means through which resources raised through the formal private sector (e.g. building societies, non-bank financial institutions) can be channelled to a wider range of beneficiaries than is now the case (including families living and/or working in the informal sector) through some sort of intermediary mechanism, such as, for example the credit unions, which are "closer to the ground" and which could assume some of the perceived risks. Discuss with at least one of the building societies already participating in the Private Sector Housing Program whether such an effort is possible, how it should be structured, and provide a framework for its implementation.

IV. Level of Effort

It is envisioned that the Scope of Work will be accomplished in two phases. The first phase will focus on the analysis of the capability of the cooperative financial sector to undertake a program of lending for housing development and on the development of a framework for the implementation of the program. The first phase will also study the potential collaboration between credit unions and local authorities (Item 3), and the potential for collaboration between formal private sector housing finance institutions and the credit unions (Item 4). If the first phase is positive, a second phase would be called for within three months to flush out the details of the program (e.g. developing specific procedures for various aspects of the program).

The Scope of Work is to be fulfilled by a team to be composed of a prime consultant from the Cooperative Housing Foundation experienced in both domestic and international credit union and cooperative housing finance (team leader) with overall direction by a senior member/principal of the firm and a local firm which has substantial experience in community based financial institutions which will be contracted separately.

In Phase I the prime consultant shall spend 16 working days in Nairobi (one six day work week plus two five day work weeks). Two days of preparatory work in Washington are authorized for the prime consultant. Two additional work days are also authorized in Washington for preparation of the final report and recommendations after departure from Nairobi. For the senior member/principal of the firm, one day of preparatory work in Washington and five days of work in Nairobi are authorized. Consultant(s) from the local firm will be contracted for ten days.

The Scope of Work for the second phase will be evolved from the results of Phase I. At this time only Phase I will be contracted for.

V. Reports

The consultant will prepare a draft report prior to his departure from Nairobi. A final report will be prepared within two weeks of his return to Washington.

VI. AID Relationships

The consultant will report directly to RHUDO/ESA for all aspects of the completion of this assignment. Limited logistical support (excluding transportation) will be provided by RHUDO/ESA.

NOTE: The RHUDO contracted with Matrix Development Consultants to work with CHF for 16 work days in Nairobi.