REWORKING TRADITIONAL FUND RAISING INSTITUTIONS FOR AFFORDABLE HOUSING PROVISION: A REVIEW OF NIGERIAN AND KENYAN CASE-STUDIES

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Traditional fundraising institutions such as *Esusu* Cooperatives in South-West Nigeria and the *Harambee* system in Kenya have been a vital source of capital formation for low income earners. This paper examines traditional and contemporary funding systems, and proposes alternative strategies for addressing funding challenges that confront low-income earners, by reviewing existing literature related to funding systems in Nigeria and Kenya. Harambee schemes have been successfully deployed in the education sector in Kenya, and similarly, many models of the credit and thrift cooperatives that exist in Nigeria (particularly those based on the Esusu system), have provided improved access to loans and credit for low income earners. It is argued that the advantages of these traditional schemes which rely fundamentally on community collaboration can be successfully utilised in the delivery of housing projects. In conclusion, the financial benefits enjoyed in the Esusu and Harambee systems can be successfully harnessed in the delivery of small and medium-sized housing schemes via housing cooperatives and other finance institutions in urban locations, by focusing on loan default minimization and elimination of collaterals.

Keywords: Esusu, Credit and Thrift Cooperatives, Harambee, Affordable Housing.

INTRODUCTION

The need to examine alternative ways of funding and delivering housing projects is clearly established in Adebamowo, Oduwaye and Oduwaye (2012),Ademiluyi (2010),

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EFinA and Fin Mark (2010),Fadairo and Olotuah (2013), and Ogundiran and Adedeji (2012), which all highlight a significant gap between housing provision and housing needs in urban Africa; underscoring the urgent need to investigate alternative solutions to the dilemma. Nigeria and Kenya have been chosen as case studies because traditional fund raising methods are well established in both countries, and have to some extent been successfully adapted for funding education building projects particularly within the Kenyan Harambee tradition. Secondly, Nigeria and Kenya are improving economies in West and East Africa respectively.

Although Kenya's urbanization percentage is lower than that of Nigeria (about 34% and 45% respectively)[4], the paucity of finance products suitable for the urban poor has been identified as a major deterrent to the provision of sufficient affordable housing quantities in both countries (Adebamowo, Oduwaye,and Oduwaye, 2012; Mutero, 2007;Malhotra, 2002; Ondola, Odundoand Rambo, 2013). Kenya's housing shortage shortfall is estimated by Mutero (2007) and Ondola et al. (2013) as between 120,000-200,000 units annually, compared to a supply of 60,000 units according to Mwanza(2012). Estimates of the annual housing requirement in Nigeria vary from about 70,000 (Olotuah, 2010), at least 200,000 dwelling units as stated in Adebamowo, Oduwaye, and Oduwaye (2012), to a massive 500,000 – 600,000 units in Ajanlekoko(2001); all of which are indicative of the existence of a significant challenge.

The lack of access to housing finance by low income earners is also a fundamental obstacle because housing needs constitute a huge capital outlay for most households in the Nigeria and Kenya, as stated in Makinde (2013),Ochieng (2009), and Yakub, Salawu and Gimba (2012), which is also emphasised by the assessment in Rust (2012)that only 3% of Africa's population can currently support a mortgage[5]. Proposals that cheaper building materials and construction techniques ought to be adopted to resolve the affordable housing deficit have yielded limited results in

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[4]Estimates for Kenya and Nigeria are obtained from www.unhabitat.org based on 2001 estimates.

[5]based on an AFDB Report of (2011)

quantitative terms according to Ondola et al. (2013); though these options remain useful.

To this end, this paper explores ‘end-user’ housing finance for low income households by reviewing the Esusu in South-West Nigeria and the Harambee fundraising system in Kenya. It argues that some of the advantages of these traditional fund raising formats can be successfully blended in with contemporary finance products for the affordable urban housing sector. Current methods of financing low-cost housing projects are also reviewed with attention to the end-user’s perspective, in order to answer the question: - *How will the buyer successfully finance the homes once they have been built?* The prospect of the end-user being viewed as a stakeholder in the delivery process is an interesting idea.

THE ESUSU AND HARAMBEE FUND RAISING SYSTEMS

Orvis (2006) views traditional practices as institutions stemming from his adoption of Knight (1992) definition of an institution as a ‘*set of rules, norms, or standard operating procedures that is widely recognized and accepted, structuring and constraining individuals' actions in a particular arena*’ p98. If we also accept this simple description of institution, then it stands that both the Esusu and Harambee are (financial) institutions that ought to be explored.

HISTORICAL OVERVIEW OF THE ESUSU FUND RAISING SYSTEM

The power of collectivism and group association among the Yoruba is rooted in mutuality, cordiality, trust, and understanding, culminating in a sense of community, and istypically directed towards farming, hunting, building of houses and finance (Akinola, 2007). Traditional fund raising systems as a form of social capital are reported extensively in literature about the African setting (Bascom, 1952; Oloyede, 2005; and Seibel, 2004), and were ways of solving individual and corporate problems, examples of which are the *Esusu* and *Ajo.* However, this paper focuses on the Esusu. The Esusu is a traditional way of facilitating access to housing finance, and the earliest evidence of this financial institution in Africa dates back to the 16th century (Siebel, 2004). They are financial self-help units that are based on local membership

and operate a rotating type of savings. Each member contributes a set amount on a monthly basis, and the lump sum contributed is given to individual members in turns. A typical rotating Esusu group continues until at least each member has benefited once, but most have significant longevity with an average of 8.3 years according to Seibel (2004).

The Esusu's role in providing finance for development at grass root levels is established in literature, and according to Adedeji and Olotuah (2012), Akinola (2007) and Oloyede (2005), low income households typically turn to Esusu as an important informal source of capital because they often do not qualify for bank loans due to inadequate collateral. Although exact figures of current membership is difficult to ascertain, EFInA (2010) states that almost 30% of Nigerians belong to an informal savings society like the Esusu.

Bascom (1952) identified two types of Esusu Systems. The 'open' Esusu method which involves contributors from different extended family compounds who may not know one another, which was sometimes prone to cheating by the leader of the Esusu, and the 'restricted' type- involving inhabitants of the same compound; for example, an association of wives, an association of children, or based on trade/occupational affiliation. This type has been reported to be of huge success due to accountability on the part of the leader who is usually known to the members, and consequently cases of default are rarely reported. The Esusu system extended to the Caribbean islands during the slave trade and to other African countries like Liberia (Bascom, 1952) and even to major American cities (Siebel, 2004).

The Esusu was remodelled into modern cooperative societies in Western Nigeria in 1935 after British and Indian cooperatives by the colonial administrators because of their belief that the Esusu is fraudulent. This conversion seemed to have heralded the end of the Esusu when people of different ethnic backgrounds got involved and loans were granted to members without contributions (Siebel, (2004). However, the Esusu remains an important way of generating income for different forms of development and there are thousands throughout the region. Informal Esusus were found to perform better than cooperatives in a small sample by Seibel (2004), suggesting that some of the benefits of the Esusu may be better suited to the needs of low-income households. The main advantages of Esusu over formal methods of fund raising are that a) it attracts no interest rate, and b) it affords the recipient the opportunity to obtain larger

sums than would have been possible through individual effort; thereby emphasising the power of collective action.

HISTORICAL OVERVIEW OF THE HARAMBEE FUND RAISING TRADITION

Several sources credit the creation of formal Harambee institutions as a means of generating funds for community projects to Jomo Kenyatta, the first President of independent Kenya (Chebet-Choge, 2012; Orvis, 2006), however the word itself according to Ombudo (1986) is from the bantu word ‘Halambee’ which literarily means "Let us all pull together’; emphasising the collective effect of harnessing individual efforts to achieve bigger results .Harambee groups existed pre-independence in most Kenyan communities and were self-help groups that were typically organised along gender and tribal lines, and devoted to activities such as, agriculture (bush clearing, sowing, harvesting) and house-building, similarly to the Esusu. Harambee groups usually commenced initially without government involvement but often with the hope of attracting additional government support or management. Kenyatta’s ‘genius’ according to Orvis (2006) was to connect pre-existing community self-help efforts to development and political structure within the Harambee system. Godfrey and Mutiso (1973), comments that newly formalised Harambee societies would be giving government funding for infrastructure, but also harness donations from wealthy members of the community.

Modern day Harambee groups are often registered organisations funded by non-governmental organisations, often existing side by side with informal traditional groups. To date, Harambee efforts are most strongly felt in the area of education (with over 600 secondary schools built) but significant contributions have also been made in infrastructure and community based projects according to Chieni(1997), Fullan, Hewlitt and Nnam (2006), and Godfrey and Mutiso(1973).

Though laudable, Harambee projects particularly educational ones have not been without problems. For Kinuthia (2009), the projects are of variable quality because they often ended up with minimal or no government funding, and efforts to formalise government support via a cost-sharing policy introduced in the 1980s were not always successful. Nonetheless, the positive contributions of the formal Harambee movement in Kenya are in the main acknowledged in literature, and are based in part on the fact

that the projects are a) initially funded by the community emphasising self-help, and b) harness capital from the private sector and the government, although this commitment needs to be improved (Chieni, 1997).

ESUSU AND HARAMBEE COMPARED

Both systems operate via the power of collective action, and provide much needed capital to low-income earners on an interest free basis. The element of social peer pressure seems to work well in both systems as a means of reducing errant behaviour due to the local community element. However the formal Harambee system has the advantage of being constituted to involve government assistance and to access private capital. In summary, the advantages of both systems are attractive and it is useful to explore ways of incorporating them into housing finance solutions.

CURRENT FUNDING SOURCES OF LOW-COST HOUSING

Adebamowo, Oduwaye, and Oduwaye (2012), CAHF (2010), EFInA and FinMark Trust (2010),Makinde (2013) and Malhotra (2002) all state that finance (at the investor-end and the user-end) is a major factor in housing delivery. According to Makinde (2013), affordable housing based on public–private partnerships and private finance initiatives accounts for just 3% of the required stock in Nigeria, while Alithea Capital (2009) reports that mortgage finance in Nigeria is less than 0.5% of the Gross Domestic Product (GDP), compared to 3% in Ghana and 20% in South Africa. Formal funding supplies about 15% of the housing need, according to EFInA and FinMark Trust (2010), which Folorunsho, Khan and Olowoyo (2012) describe as negligible. Housing costs also constitute about 40% of the income of urban dwellers who are mostly renters (EFInA and FinMark Trust, 2010).

Kenya has a relatively well-developed financial system in comparison to many other African markets, with a mortgage sector that currently constitutes 3.3% of the GDP according to CAHF (2010), but one of its most critical challenges is making finance accessible to the poor. Mutero (2007) reports that whilst the Kenyan economy continues to make some progress with on-going reforms in the financial sector, the combined efforts of the private and public sectors in Kenya produces about 15% of the

housing shortfall. Malhotra (2002) states that over 50% of the expenditure in low income households is spent on food, compared to less than 20% on housing, and as a result, it is pertinent to integrate other income generating activities into housing programmes, to make more income available to service housing loans (Mutero, 2007). Currently, very few Nigerians and Kenyans can afford existing mortgage products according to the CAHF (2010) report and unfortunately, there is no well-coordinated housing subsidy system for social (affordable) housing in Kenya as reported in UNHSP (2005), and virtually none are affordable by the poor in Nigeria (Shorebank International, 2011). Formal and informal funding sources are discussed below.

FORMAL MORTGAGES FOR LOW-INCOME FINANCE AND MICROFINANCE

The formal institutions responsible for housing funding in Nigeria are: -

A) The Regulators: -The Federal Ministry of Lands, Housing and Urban Development, the Central Bank of Nigeria; responsible for regulating the banks, primary mortgage institutions, and microfinance banks, and The Securities and Exchange Commission (EFInA and FinMark Trust, 2010 and Makinde, 2013).

B) The Financial Institutions: -

1) The Federal Mortgage Bank of Nigeria (FMBN) was created in 1977 as an apex housing finance institution to provide long-term credit facilities to mortgage institutions, supervise mortgage institutions, fund the National Housing Fund, and promote construction research and mortgage finance.

2) The National Housing fund (NHF) set up in 1992 was specifically aimed at providing low-cost housing finance and is administered by the FMBN. It is a mandatory contributory scheme and according to Sanusi (2003), the fund should provide home building and improvement loans, incentives for the capital market to invest in property development and long-term loans to mortgage institutions.

3) 24 Commercial (private) Banks, and

4) 99 Primary Mortgage Institutions

C) The Developers: -

1) The Federal Housing Authority and

2) State Housing Corporations. The first Housing Corporation was the Western Nigeria Housing Corporation established in 1959, and each of the thirty-six states now has one, to operate as property developers of the government

3) State Ministries of Housing and Urban Development

In more recent times, private institutions such as real estate developers, insurance companies and non-governmental organisations have also become involved in housing provision, although most focus on middle and high income housing units.

The 'threshold' established for low-cost affordable housing in Nigeria of N2million according to Makinde (2013) is based on affordability analysis. Alithiea Capital (2009) stated that over 60% of the active population cannot afford houses of N5million, and few institutions other than the FMBN provide for such housing below N2.5million. According to EFInA and FinMark Trust (2010), both FMBN and the NHF have real operational constraints with less than 100,000 mortgage units allocated in the period between 1960 and 2009; mostly for high-income units with a maximum repayment period of 10 years.

The Kenyan mortgage accessibility conditions according to Mutero (2007) is such that only a small percentage of urban households have traditionally qualified for mortgage loans from housing finance institutions, due to their low income and a variety of reasons. This situation has not improved much despite the lowering of interest rates in the 1990s, which stood at 12.5% -14 % in 2007, and the recent extension of lending terms to 25 years by some Housing Finance Institutions.

Kenya's mortgage industry goes back to 1964, with the main financing organizations being the Housing Finance Company of Kenya, Kenya Building Society (KBS), and Savings and Loans (S and L), with numerous building societies and banks presently. Despite some finance institutions failing in the period from the late 80s to early 90s, (Mutero, 2007) stated that the most important historical development was the freeing of interest rates in July, 1991.Recent innovations include the provision of fixed-rate mortgages, the introduction of 100% financing by one of the banks for certain loans, and the growth of home equity loans secured by mortgaged properties. Although exact figures are not available, Makinde (2013), Malhotra (2002), Ondolaet. al. (2013) and

Taylor (2000) all affirm that private developers (small firms and single plot holders) produce the bulk of formal urban housing in Kenya and Nigeria.

Overall, on-going challenges faced in the low-cost mortgage market in both countries include a) the lack of suitable finance products, b) the need to improve the ability of microfinance institutions to access private capital for housing microfinance, c) the need to mitigate default risks, and) the inability of low-income earners to provide collateral or security against their loan application. These challenges remain despite the much lauded aims of Nigeria's NHF, and the efforts of Kenya's mortgage Industry.

OTHER FORMAL SOURCES OF HOUSING FINANCE

Many individual households and builders obtain loans from microfinance institutions however, few institutions concentrate specifically on housing in Kenya (Malhotra, 2002), and Yaqub (2012) review of microfinance in Nigeria also suggested that their impact was limited and rarely resulted in improved income generation.

HOUSING MICROFINANCE

Mutero (2007) describes housing microfinance as an emerging sector in Kenya, but the issue of security for microloans remains a real problem. One of the main peculiarities of the low-income sector in Kenya according to Malhotra (2002), and of developing countries in general according to UNHSP (2005), is the need to build and raise funds in stages (incremental or progressive housing), which UNHSP(2007) estimated at around 70 percent of housing investment in developing countries. This means smaller loans are needed for each stage and consequently, repayments are more affordable. Unfortunately, Malhotra (2002) reports that few housing finance and microfinance organizations in Kenya have attempted many product innovations due to limited access to low-cost long-term funds; and this is also identified as a major handicap for housing microfinance in UNHSP (2007).

Jamii Bora: The Shining Star of Microfinance

A unique solution for providing much needed security for microfinance loans is being used by a Kenyan financing institution- Jamii Bora- founded in 1999. According to

Mutero (2007) and Belfrage (2009), this organisation reportedly with about 250,000 members, lends to poor borrowers who have saved with the institution, allowing them to borrow twice as much as they have saved and allowing a repayment period of 5-20 years. The borrowers are organised into small groups, and the loans are in part secured by peer pressure and clearly reminiscent of the experience of Esusu or Harambee group members. Jamii Bora runs numerous social programs designed to remove obstacles and create opportunities for the poor to overcome poverty, including the Jamii Bora Housing Project. The success of the housing project is highlighted by its 99% repayment rate according to Belfrage (2009), which is unprecedented. However, housing microfinance is not as developed as enterprise microfinance because few organizations in both Nigeria and Kenya specialise on this, and the poor continue to struggle to gain access to finance from banks for the above stated reasons.

SAVINGS AND CREDIT COOPERATIVE ORGANISATIONS (SACCOS)

Otto and Ukpere (2011) define a Credit and Thrift Cooperative (a.k.a Savings and Credit cooperative) *"as an association of persons who pool their resources together on mutual basis to solve specific socio-economic problems, which may include income generating activities"p5676*. Co-operative practices in Nigeria predate modern co-operatives in form of the Esusu in Yoruba land (SW Nigeria). It occurs in other Nigerian cultures, and is a precursor to modern Co-operative Thrift and Credit Society (Oluwasesi, 2011). Similarly, these practices have also existed in Kenya since time immemorial (UNHSP, 2010). The modern cooperative movement in Kenya can be traced to 1908, although the first ones to be operated by Africans started in the 1930s and there are now over 14,000 in the country (Kenya Bureau of Statistics, 2013), while Nigeria's first formal co-operative was formed in 1936, with over 80,000 currently in existence according to EFInA (2012) although actual figures are difficult to verify.

Otto and Ukpere (2011) identified at least seven types of cooperatives in operation in Nigeria but the Rotating savings and credit associations (ROSCAs) type[6] is of specific interest in this paper since many savings and credit cooperatives provide small loans

that are easily diverted to fund aspects of building projects. The Esusu is an example of the ROSCAs, and some Esusus that have converted to formal cooperatives have performed better than non-Esusu cooperatives according to Seibel (2004). Cooperatives generally are multipurpose, but some focus on a single purpose of which the housing cooperatives is an example that is "*a form of homeownership in which people join to form a cooperative corporation which owns shares in buildings in which they live*" *p2.* (UNHSP, 2010).

The six different forms of housing cooperatives identified in the Kenyan context by UNHSP (2010) range from those where the cooperative member owns a voting share and a registered right to their individual units, where the member can sell their units on the open market, land only cooperatives where only the land is held jointly by the cooperative, to leasing cooperatives whereby the individual units are leased, sometimes with an option to buy. The main sources of external financing for housing cooperatives in Kenya are the Cooperative Bank, SACCOs, Union Bank, and Cooperative Housing Societies, and typically these cover the cost of the whole project, while internal monthly payments from the cooperative members go towards the mortgage repayment, utilities and maintenance.

Challenges of cooperatives include- a) the risk-averse nature of commercial banks towards the building industry, b) high interest rates of 15-20% with repayment periods between 7 to 20 years in Kenya (UNHSP, 2010), and a maximum of 10 years in Nigeria, c) a down payment of 20-40% of the value of the property (UNHSP, 2010), and d) the inability for most low-income earners to provide adequate collateral and pass credit checks. In addition to these are complex land administration laws in both Kenya and Nigeria which is out of the scope of this paper but is noted nonetheless.

On the whole, SACCOs are increasing in popularity and a few housing cooperatives have succeeded in providing housing for all of their members in Kenya (UNHSP, 2010). In the Nigerian context however, the verdict on cooperatives and housing cooperatives remains split between qualified success (Otto and Ukpere, 2011), and limited progress (Adedeji and Olotuah, 2012). While the numbers of housing units provided through this avenue in both countries are not high, the cooperative

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[6] Otto and Upkere (2011) list the seven types of cooperatives in operation in Nigeria as follows: - 1. Multipurpose co-operative societies, 2.Marketing co-operative societies, 3.Consumers co-operative societies, 4. Processing co-operative societies, 5.Industrial co-operative societies, 6.Supply/purchasing co-operative societies, 7.Credits and thrift co-operative societies.

environment in Kenya has been a source of some finance product innovation, and one of these products is outlined below.

The NACHU Experiment- Innovation in Housing Cooperative Products

Mutero (2007) outlined a rather innovative finance product piloted by Kenya's National Cooperative Housing Union (NACHU); that takes cognisance of some of the peculiarities of the Kenyan low-income housing rental market. NACHU serves 200,000 people through its membership of 210 housing cooperative societies[7]. The NACHU programme applies to new housing, rehabilitation, infrastructure loans for groups, resettlement loans, and group loans for building construction. The programme utilises an idea from general micro-finance- the use of solidarity sub-groups of five, '*Watano*'- which serves in part to exert peer pressure, and as a way of providing larger longer-term loans yet safeguarding the returns, and has had a good measure of success similar to the Jamii Bora experiment. A Watano can take a group loan after 6 months membership to buy land and then build a housing block, or for home improvements. These housing blocks serve several households and are usually modest accommodation, and the home owner-members are allowed to sub-let some rooms to provide income towards paying the loan. The use of peer pressure as a safeguard against defaults makes it possible for each individual to access larger loan sums, and coupled with the formal sub-letting arrangements, provides much-needed income-generating facilities to the borrower.

INFORMAL SOURCES OF HOUSING FINANCE

The majority of urban dwellers who aspire to build their own dwelling no matter how modest, mostly resort to informal sources such as relatives and friends, according to CAHF (2010), EFInA and FinMark (2010)[8] and Mutero (2007),[9] or to informal savings groups such as Esusu or Harambee groups, which remain very effective due to self-reliance operating within a network of local communities, opines Chieni (1997)

[7]This information is obtained from the UN-Habitat UNHSP (2010) document.

[8] Over 60% of new houses each year in Nigeria are financed by personal income and savings, according to EFInA and FinMark (2010). It is the most preferred option because of high interest rates on loans and inaccessibility of loan products to low-income earners.

[9]Mutero (2007) study of 1775 households in Nairobi informal settlements found that nearly 60% borrow from friends and relatives for home improvements and building projects.

and Seibel (2004). While several informal savings groups have no links with microfinance institutions, they may operate a 'lay-by' approach with building materials retailers particularly in Kenya to pay in instalments; an approach which ensures a segment of income is attached to housing provision. Some informal savings groups have developed relationships with microfinance institutions, and the Kenyan experience of such groups is of low default rates. The main observation is that the relational connections between members of informal groups can be more formally harnessed in pilot schemes to assist low income earners to fund home ownership, since some evidence exists that they can be effective.

BLENDING THE ADVANTAGES OF INFORMAL SYSTEMS INTO FORMAL STRUCTURES

Several authorities have offered strategies for improving housing finance, however, the challenges addressed here are those faced by the low-income end-user: -1) The shorter-term tenure versus high monthly repayments format, 2) The issue of creditworthiness and collateral, 3) The absence of finance products with affordable repayment arrangements, and 4) The fact that most low-income households usually build and finance incrementally. The proposed strategies below are in response to these issues, and seek to blend the advantages of traditional systems into contemporary financing structures.

The Watano-Style Strategy: The rotating element of the Esusu, and of the Watano groups piloted by NACHU and Jamii Bora is the foundation for this finance product. A Watano-style group is proposed whereby 'good credit performance' by all members in the group is rewarded by better interest rates on subsequent loans. This needs to be coupled with a degree of flexibility in the repayment period of the products, to enable progressive construction by the Watano-style group on land purchased collectively on the open market, and built on subdivided parcels of land, or to allow for longer-term mortgages within a cooperative structure. Significantly, the formal subletting arrangement of the Jamii Bora pilot is also proposed to be a key part of this strategy, and is an acknowledgement by formal (lending) institutions that subletting is a viable income generating mechanism that is not uncommon. Punitive measures need to be incorporated in this product in case the effect of peer influence fails, and in place of the need for collaterals. The risk of home repossession constitutes a punitive measure

in the event of more than 3 months outstanding loan payments, and this must be clearly set out in loan agreements.

The Land-Only Cooperative is proposed within the housing cooperative framework to develop small and medium-sized low-cost housing estates. This is based on the Kenya's Land-only Cooperative in which only the land beneath the property is owned on a cooperative basis. The cooperatives provide a collective mortgage which is repaid by its members over a 10-20 year period, and this needs to be coupled with lower interest rates as advocated by researchers such as Omotoso (2011). This allows for a lower proportion of income to be used for housing mortgage repayments, hence reducing the risk of default. It can also be safeguarded by the 'Watano effect' whereby a single mortgage product covers the whole estate (mainly small estates). Less stringent (or no) collateral demands can be counterbalanced by other safeguards such as strict repossession rules. The Kenyan Market Equity model, whereby the shareholders may buy and sell their shares at full market value can operate similarly.

Progressive Construction Loan Strategy 'embraces' the fact that progressive construction is the reality of most low-income earners in developing countries. Shorter-term loans (2-3years) for building in stages (progressive construction) according to Malhotra (2002) may be less risky than long-term mortgages. Importantly, it can also minimise or eliminate the need for onerous collateral demands. This loan can be provided by SACCOs or housing cooperatives particularly those operating at a local level. The fundamental basis of this product is the need for an on-going term relationship between the borrower and the lending institution, which is not necessarily a bad thing. Also, lessons learnt can be successively modified to improve safeguards against defaults in proceeding years.

ADVANTAGES OF ADAPTING TRADITIONAL ELEMENTS INTO CONTEMPORARY STRUCTURES

The strategies above include lower interest rates, longer loan repayment periods, access to larger sums of money (via the Watano-style strategy), and the formal inclusion of subletting in response to the traditional model advantages outlined in section 2.2.1. However, these strategies are best served if there is relative homogeneity in the disposable income levels of the Watano group or cooperative members which is also advocated in Patibandla and Sastry (2004), or if the members

are similarly salaried or self-employed. Otto and Ukpere (2011) noted that the use of peer group influence exists in other formal forms – The Grameen Bank- which originated from India, uses the Grameen solidarity model which gives loans in turns to individuals within a group of five, and which has proved effective in deterring defaults. The use of peer influence and the formalisation of the subletting process may adapt well in various cultural contexts and can empower the low-income earner in the process.

POSSIBLE PITFALLS AND HOW TO AVOID THESE

Some pitfalls are not uncommon in developing countries. Otto and Ukpere (2011) state that peer pressure influence is only effective insofar the individual faces serious social consequences if agreements are breached. They state that high levels of indiscipline and corruption in a country like Nigeria could require further safeguards in the credit system. Any financing institution must address these challenges through contextual safeguards. In response to these perceived shortcomings, salaried beneficiaries can have their monthly repayments deducted directly from their employers, and perhaps include guarantors in the loan process.

CONCLUSIONS - A WAY FORWARD

This paper proposes that the end-user is viewed more as a stakeholder, and recommends that many of the safeguarding elements need to be context-specific. The review of literature indicates that few institutions in both countries have finance/micro-finance products specifically for housing for the urban poor, but the Kenyan context seems more proactive in this regard and has valuable lessons to offer. There is also an urgent need to increase (government and private) capital funding to finance institutions and cooperatives for low-cost housing, and it is interesting to note that the World Bank recently approved a $300 million credit to boost Nigeria's efforts to provide affordable mortgages for middle-income and lower income families (World Bank, 2013).

Finally, efforts to create innovative finance products must embrace some of the pre-existing conditions in the low-income sector, and the three proposed strategies have

sought to address some of these conditions. Longer term loans and mortgages are gaining wider acceptance in Kenya, and should be considered in other contexts. People are less likely to default if the monthly repayments are not huge proportions of their income, or if they can take smaller loans in stages commensurate to their modest incomes as indicated in Malhotra (2002). Some of the security elements that make the traditional funding less prone to defaults are already in place in a few financing institutions and this is a viable route to achieving the best of both worlds.

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