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# A REPORT ON COOPERATIVE HOUSING FOR LOW INCOME WORKERS IN KENYA

Prepared for:

The Ministry of Cooperative Development

and

The Central Organisation of Trade Unions (Kenya)

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FCH INTERNATIONAL, INC.

A SUBSIDIARY OF THE FOUNDATION FOR COOPERATIVE HOUSING  
2101 L STREET, N.W., SUITE 409, WASHINGTON, D.C. 20037 • (202) 857-4100

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## SUMMARY OF RECOMMENDATIONS

### National Cooperative Housing Agency (NCHA)

1. The team strongly recommends the immediate establishment of the National Cooperative Housing Agency (hereafter denominated NCHA) as a non-profit para-statal corporate body pursuant to an act of Parliament to be sponsored by the Ministry of Cooperative Development.

NCHA will act as the primary advocate and sponsor of housing cooperatives at the national and local levels, and in the urban and rural sectors.

It will have representation on its board of directors from the concerned public and private bodies and ultimately the prospective beneficiaries themselves, including the following: the Ministries of Cooperative Development, Housing & Social Services, Labour, Finance & Planning, Lands & Settlement, the Cooperative Bank, COTU, the Kenya National Federation of Cooperatives (KNFC), the Kenya Union of Savings & Credit Cooperatives (KUSCCO), the Housing Research & Development Unit of the University of Nairobi (HRDU), the Federation of Kenya Employers (FKE), the National Christian Council of Kenya (NCCK), and eventually the cooperative housing societies. There shall be an Executive Committee of 5 persons including the Ministries of Cooperative Development, and Finance and Planning, COTU, the Cooperative Bank and one other member to be elected by the Board to provide the detailed guidance to the management of NCHA.

The purpose of NCHA will be to sponsor, implement and manage housing cooperative programs. Its functions will include: the organisation and endorsement of cooperative societies; the planning and development of feasible housing programs; acting on behalf of societies to secure land and financing for schemes; overseeing construction; and the provision of financial, estate management and auditing services.

To carry out these functions three departments would be created within the NCHA: a) the Cooperative Organisation and Community Development Department; b) the Project Development (technical) Department; and c) the Finance and Administration Department.

2. To successfully launch NCHA the government must be prepared to fund the Agency for the first five years at which time it should be largely self-sustaining from charges for the organisation and development services rendered to and on behalf of the cooperatives. The following are estimates of government inputs:<sup>1</sup>

Year 1	KShs	700,000
2		700,000
3		775,000
4		850,000
5		1,000,000

1. These are rough estimates based on 1978 prices and do not take into consideration anticipated NCHA income beginning in the third or fourth year from its organisation and development fees charged to the cooperative societies.

3. The team urges the immediate establishment of an action Task Force composed of representatives from the Ministries of Cooperative Development, Housing & Social Services, Finance & Planning, COTU, the KNFC, and the HRDU. The mandate of this ad hoc interim committee is solely to make the necessary arrangements, in collaboration with the Minister for Cooperative Development, for the creation of a cabinet level Joint Preparatory Committee on Cooperative Housing. The Task Force should complete its work within four to six weeks, and the Joint Committee should be operable by 1 September, 1978.

4. The Joint Committee would be designated by the Minister of Cooperative Development and include high level representatives from the same six groups comprising the Task Force. A small secretariat for the Joint Committee would be required and help on this matter is proposed to come from the committee members and the HRDU. The functions of the Joint Committee will be the following:

- drafting the necessary legal documentation, cabinet paper and Act for the Minister for Cooperative Development;
- preparing a workable organisational structure, including relationships and roles of the board members for the NCHA;
- precise cost estimates to establish and staff the NCHA for the first five years;
- establish and identify sources of financing for the programs and projects to be sponsored by NCHA, including arrangements between the NSSF and the Cooperative Bank for such financing;
- define target groups;
- develop a work plan for the first year of operation;
- define and initiate requests for required long-term technical assistance inputs;
- select the core staff of NCHA.

The Joint Committee should finish its work within a period of six months.

This recommendation and the one directly preceding it were unanimously adopted by the ad hoc meeting convoked on the 9th and 10 of June at the Milimani Hotel in Nairobi.

5. Technical assistance should be requested and provided for during and after the start-up period.

6. A strong policy statement on cooperative housing must be included in the new National Development Plan 1978-1983 by the Ministries of Cooperative Development, Housing and Social Services, Lands & Settlement, and Finance & Planning.

#### The Organisation of Housing Cooperatives in Kenya

7. Since the joint ownership principle in housing cooperatives is not yet widely understood or accepted in Kenya, the short-term approach should be flexible and permit, among others, housing cooperatives incorporating individual ownership of housing units.

8. Recognizing the longer range advantages of joint ownership which safeguards the interests of the target group, facilitates financing, and ultimately helps stabilise rents, this form of ownership should be the recommended form of organisation over the long term. To prepare for the introduction of the joint ownership concept, the NCHA, the Ministry of Cooperative Development, and the Ministry of Housing and Social Services should develop and carry out an educational programme for the general public, for the financial institutions and for the local authorities on the advantages of joint ownership housing cooperatives.

9. Where joint ownership cooperatives are organised there must be a means to determine the value of the share of a departing member and a mechanism to finance the resale of the share to an incoming member.

#### Financing of Cooperatives

10. The team urges that financing from the National Social Security Fund (NSSF) be earmarked for low-income cooperative housing programmes for workers and channelled into the Cooperative Bank, the National Housing Corporation (NHC), and other suitable financial institutions. Pension and provident funds and insurance companies should be encouraged to invest through these same mechanisms. Loan terms should be unsubsidised.

11. It is recommended that the NHC be encouraged by the Ministry of Housing and Social Services to lend to eligible housing cooperatives and/or to members. The NHC has particular expertise and capacity to supervise construction in townships outside the major cities and in rural areas and should be encouraged to undertake such lending, for which it is already mandated.

12. It is recommended that housing cooperatives sponsored by the NCHA and financed through the Cooperative Bank (or through its new subsidiary, the Cooperative Finance Company) offer participations to other investors for joint financing.

13. Cooperative housing projects should embrace a sizeable socio-economic mix and contain larger and smaller lots for members of the same society earning different wages; and incorporate commercial and social facilities.

This type of project could allow for cross-subsidy between higher and lower cost plots, resulting in a slight subsidy for the lower income families.

14. It is further recommended that in addition to the traditional external lenders for housing, namely USAID and the World Bank, that the government explore other possibilities such as the African Development Bank (ADB), the European Development Fund (EDF), the Canadian International Development Agency (CIDA), the Swedish International Development Agency (SIDA) and the Arab funds.

#### Land

15. The team recommends that the Ministry of Lands and Settlement set aside on a regular basis adequate lands specifically earmarked for cooperative housing development and that this process be coordinated with the municipalities through the NCHA to determine the annual land needs of cooperative housing. To ensure that enough land is made available for housing development it is imperative that housing cooperatives be included as active developers of low-cost housing by the Ministry of Lands and Settlement in the new Development Plan (1978-1983) now being drafted.

#### Role of Trade Unions

16. Trade unions should support the development of housing cooperatives for their members in much the same way they assist in the development of other cooperatives. Trade unions should not sponsor or run housing cooperatives themselves, but rather influence policies of the government and its agencies, such as the NSSF, represent the interest of workers through NCHA, and carry out educational programmes for members. Specifically, COTU should strengthen its cooperative unit with suitable staff for educational and promotion purposes.

#### Role of Employers

17. Employers should be encouraged to contribute to cooperative housing programmes for workers through the provision of salary check-off services for the contribution of shares and repayment of loans, guaranty of loans to housing cooperatives by lenders, and making deposits with the Cooperative Bank. Consideration should also be given to enacting an employer tax for worker housing.

## A. Introduction

### 1. Background

The Government of Kenya has placed a high priority on housing in its Development Policy. This is done in realisation of the significance of housing in promoting social welfare, employment, capital formation and in making economic development tangible to the people of Kenya.

As in most other developing countries rapid urban growth combined with lack of financial and institutional resources has created a severe housing shortage which has affected the low income workers in particular. The overcrowding in sub-standard squatter settlements around the major urban centres bears dramatic witness to this fact.

It was in realisation of these facts that the Central Organisation of Trade Unions (COTU) initiated a series of meetings which focused on the role of the Trade Union movement in helping workers improve their quality of life in present day Kenya. It was recognized that if a worker is to cope with his housing problem alone he faces insurmountable problems of acquiring land and designing and constructing the dwelling, let alone finding the necessary long-term funds to finance his house. On this basis the idea of cooperative organisations was advanced and supported in a number of fields including housing.

At a meeting at Taita Hills in August 1975 COTU officials and union members discussed ways in which cooperatives could assist union members and the whole relationship between cooperatives and trade unions in Kenya. Housing was an issue of major concern and thus a workshop specifically on cooperative housing for lower income workers was held at Kisumu in November 1977, under the joint sponsorship of COTU and the Ministry of Cooperative Development.

The Kisumu Workshop produced a number of recommendations on the technical, institutional and financial aspects of housing for workers. In order to maintain this momentum and turn the Kisumu recommendations into action, COTU and the Ministry of Cooperative Development, with the financial assistance of the African-American Labor Center, decided to engage the services of the Foundation for Cooperative Housing (FCH) of the USA to conduct a study to determine specifically how housing could be provided to low-income workers through cooperatives. FCH is a non-profit organisation with more than 15 years of experience in cooperative and other forms of low-income housing in the USA, Latin America, Asia and Africa.

### 2. Purpose of Study

#### a) Terms of Reference

The terms of reference supplied to the FCH team by the Ministry of Cooperative Development and COTU called for a study to provide a sound

basis for the development and expansion of housing cooperatives for low-income workers and addressing specifically the following points:

- i. evaluate the existing housing cooperatives in Kenya to determine their needs for further expansion and development;
- ii. recommend an appropriate structure for a housing cooperative movement in Kenya with detailed recommendations (and methods of implementation) on all aspects of the organisational structure including an apex organisation. Emphasis should be placed on the following aspects:
  - legislation, including model by-laws for primary, secondary and apex societies;
  - functions of the various organisations within the structure with regard to the services to be provided in the areas of planning and design, land acquisition, financing, construction supervision, allocation, ownership, administration, maintenance and training;
  - relationship between the organisational set-up, the Government and other relevant institutions.
- iii. recommend a specific policy and role for COTU in the development of housing cooperatives among low-income workers;
- iv. recommend a method or methods by which employers could make a financial contribution to such cooperatives;
- v. recommend a suitable mode of financing a programme of cooperative housing. Besides the possibilities for external financing, the study should examine and determine the role of the recently established Cooperative Finance Company, the Savings and Credit Cooperatives, the National Social Security Fund and other financial institutions or channels, towards financing a cooperative housing programme in the country;
- vi. identify resources other than finance, e.g., personnel necessary for implementing a cooperative housing programme in the country;
- vii. identify possible differences between urban and rural housing cooperatives and recommend the appropriate strategies for the two possible approaches to cooperative housing;
- viii. the study should illustrate how cooperatives could be complementary, supplementary or superior to alternative forms of housing in Kenya, that is, by making houses available to their members, particularly low-income members, more economically than alternative methods.

b) Study Dates and Team Composition

The study was conducted from the 18th of May to the 22nd of June, 1978, by the FCH team consisting of Jack Edmondson, Vice President of FCH International, Henry Boldrick, Cooperative Housing Specialist for FCH International, and Niels Jorgensen, consultant member of the FCH team, formerly of the United Nations Habitat and Human Settlements Foundation and the Housing Research and Development Unit of the University of Nairobi. The team was assisted in its work by Pius Odhiambo, Cooperative Officer of COTU, J. K. Gichuru, of the Department of Cooperative Development, and N. Mulili, social interviewer of the HRDU.

In addition to meetings with representatives of institutions and agencies involved in cooperatives and housing in Kenya, the team has drawn on recent reports by Housing Research and Development Unit and the Nordic Project for Cooperative Assistance to Kenya. Further, the team presented its preliminary findings and recommendations for review and discussion at a meeting on the 9th and 10th of June, attended by some 20 representatives from 14 different governmental, cooperative and private bodies. The views and suggestions expressed at this and other meetings have been taken into consideration in the preparation of this report.

B. Target Group: Description of Urban and Rural Workforce

1. Population

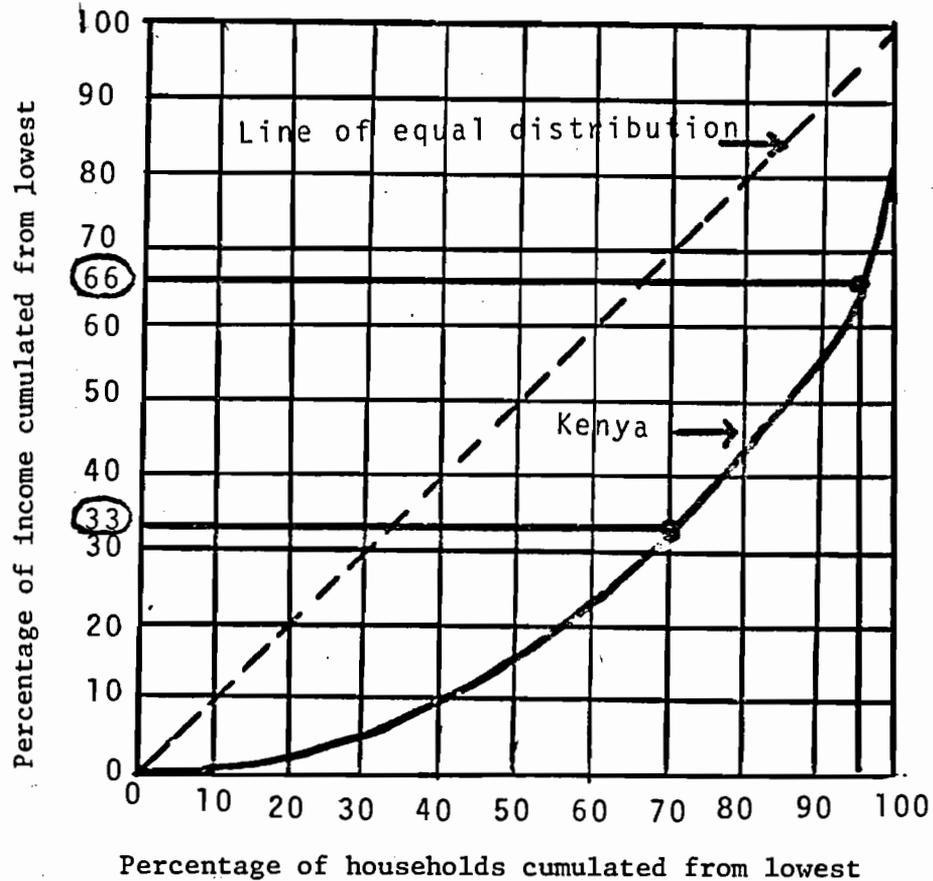
Out of a total population in Kenya of about 15 million, it is normally assumed that 10% live in urban areas and that the rest can be classified as rural. From the point of view of this report three main characteristics of the urban and rural workforce are important:

- a) Population in Kenya is estimated to be growing at a rate of about 3% per annum, but the urban population is growing at least double this rate. There is no reason to believe that the rural to urban migration will slow down over the next few decades; if anything, it is likely to intensify. Population projections for the year 2000 indicate a population between 28-34 million. Of these, 9 million will have to be accommodated in urban areas compared to the present 1.5 million. This implies a need for about 50,000 more dwelling units per year, 10,000 for Nairobi alone. But, in fact, only 3,000 units were legally completed during the 1954/75 period. The shortfall of about 7,000 units were made up by illegal structures.<sup>1</sup>
- b) In Kenya, as in many other developing countries, it is fair to say that about 70% of the population earn 1/3 of the income, as seen from the chart that follows. This means for a city like Nairobi that 76% of the population had a household income of KShs.600 per month or less, and that 47% of the households had an income of KShs.300 or less.

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1. For detailed information on housing conditions in Kenya see, among others: Coopers & Lybrand Associates Ltd.: Nairobi's Housing Needs: Meeting the Challenge, 1976, Vol. III, p.2/2; Ministry of Housing: Urban Housing Needs in Kenya, 1973-1978, January 1974; Nairobi City Council: Report on Population, Housing and Employment in Nairobi, 1975, pages 1 and 6.

### INCOME DISTRIBUTION IN KENYA



It was calculated in 1977 that a contract built house of minimum standards (two rooms, kitchen and toilet) would cost KShs.25,000.<sup>2</sup> For such a house with individual piped water and sewer connections the owner would pay a monthly amount of KShs.200 exclusive of rates and metered charges, if finance on normal commercial terms were available. With this particular alternative, only a minority of the urban population could afford this. The fact is, however, that if they should ever be considered for such a house they would welcome it and manage to afford it by subletting one or two rooms at prices equal to the price they will pay for the entire house. Another, of course, is to achieve the same objective by self-help construction and building in sections.

2. J. Eygelaar in paper by Housing Research and Development Unit presented at the Kisumu Workshop on Housing for Low Income Workers (Kisumu 1977).

- c) Poor people in the rural areas have less of a problem when it comes to housing themselves. They are normally capable of constructing a traditional dwelling of local materials at a price they can afford using payment in kind and offering their labour to others in the process of building. Another type of rural workforce is that which works on large plantations or in industries, such as mining and quarrying. These workers are normally housed by their employer near their place of work. The same is true for government staff placed in rural or remote areas. Rural housing in Kenya thus seems less of a problem for the poor than for those members of the urban workforce who wish to build more substantial houses in their home (rural) area in which to house their relatives and for the purpose of retirement.

## 2. Income

The conventional way of defining income for the purpose of housing does not seem to work for the lower income groups in rapidly expanding urban centres of developing countries. It is a fact that in Nairobi, as in Mombasa, Kisumu and Nakuru, the cost of housing is such that even though wage levels are too low for the majority of people to rent or buy a complete house few, if any, can be said to be without shelter. Typically, they live in overcrowded rooms in squatter areas. A few categories of low-income workers such as domestic servants and those working for the railways, police and hospitals are housed by their employers.

The minimum legal wage is KShs.350 per month in Nairobi and Mombasa, and KShs.300 in other towns. Although family groups may together have considerably higher income, only the head of household's income is normally considered in determining housing eligibility. According to the Central Bureau of Statistics, less than KShs.700 per month represents "low income" in Kenya. This amount, however, represents "normal" income for trade union members. This is the target group of the present exercise.

It is significant in this context that incomes are not stable over time - nor is construction cost; but the person who has been allocated a house and pays rent or mortgage payments on the basis of historical cost is increasingly better off over time since his income can be assumed to increase with inflation which in Kenya has for some time fluctuated around 10% per annum. Moreover, income increases are likely to occur with increased seniority and responsibility in the job.

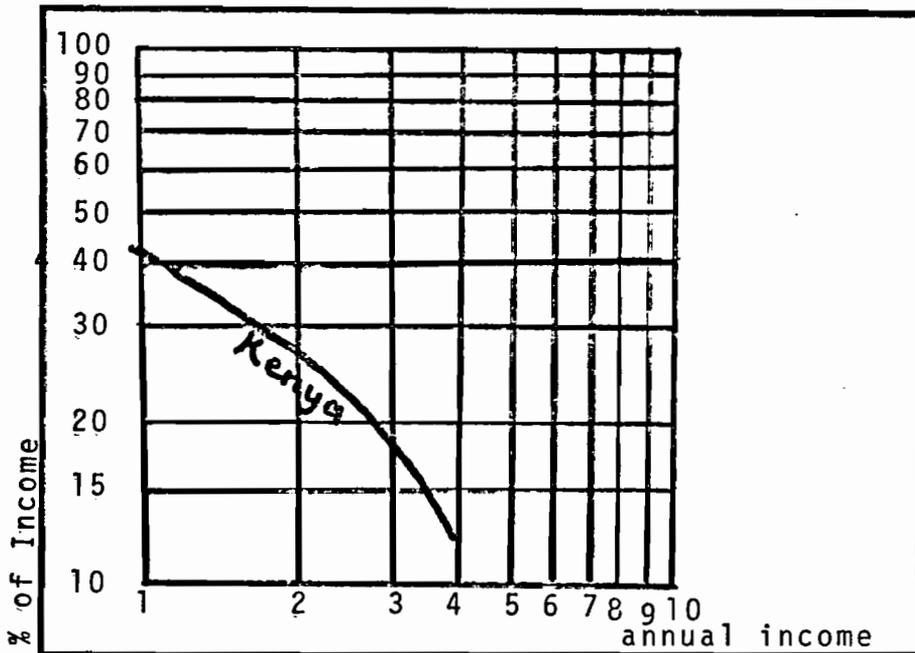
Related to income is the amount families are willing to spend on housing out of this income. COTU found in a recent survey that most low-income workers spend an average of KShs.70 - KShs.90 per month on rent. This fact corresponds with the findings of other surveys in Kenya and elsewhere which indicate that rent propensity is inversely related to income, namely that the lower the income, the higher is the percentage of income people are willing

(or forced) to spend on housing. At the higher income levels this percentage is at the 10% level whereas for the very low income group it goes as high as 40%. The often quoted average of 20-25% is therefore correct as an average, but grossly misleading for housing policy purposes. (See Chart below.)

These circumstances lead to one of several housing possibilities among low-income workers. They either live in sub-standard shelters in squatter areas, live in overcrowded rooms in minimum-standard houses or they are fortunate enough to be allocated a council house or other subsidised dwelling, in which case their income may increase even to the point where they could retire from their normal work and live off the rent of sub-tenants.

Housing cooperative societies are intended to help correct this deteriorating situation. With a national cooperative housing programme in place, the workers with low to lower medium incomes could, as has been illustrated, benefit from the fact that as a group they would be able to raise long-term finance and have houses constructed, something which individually they would have little chance of doing.

### RENT PROPENSITIES



### 3. Family Size and Housing Conditions

In terms of housing requirements, family size in the conventional sense may be misleading. Extended family dwellings (or groups of dwellings) are common in the rural areas, but in cities a worker may or may not have his wife living with him. Most typically, not all the children live with him in town at all times,<sup>3</sup> and the wife may be away for long periods or only visit occasionally.

This situation, combined with the fact that many workers are not so interested in a house in town as a family home for the rest of their lives, makes these workers more interested in finding a convenient, decent and cheap accommodation which will serve for the time they are actively employed and leave money for other needs among which is a desire to acquire a house and land in their home area. Recent statistics show that this "transfer payment" ranks third to "food" and "rent" followed by "school fees" in the expenditure pattern of low income workers in Nairobi.<sup>4</sup>

Following from the above, it appears that although the lowest among income earners (wage-earners and self-employed alike) are content to rent and live in a single room, they should at least have the possibility of occupying two rooms if they so choose. This also reflects official policy. In addition, whether an individual, a family or a group of single persons occupy one or more rooms, they should for health and other reasons have easy access to water and sewer systems, shops, schools, recreation facilities and be near their place of work. This is often not the case in the larger urban centres.

What does often exist, however, is a beneficial social environment. This aspect should be preserved and enhanced in new housing schemes or in the upgrading of existing squatter areas where it becomes so much easier to do.

Accordingly, income and expenditure patterns of the target group together with a variety of family sizes, and different preferences as to accommodation all point to another feature of squatter settlements which should be incorporated into new housing programmes, namely differentiation of dwelling units provided. This feature is often totally ignored in many new mass-housing schemes.

Cooperative housing schemes should take these diverse factors into consideration and this is discussed in more detail in Part D of this report.

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3. Typical occupancy rates among low-income housing range between 2.8 and 3.6 per room. (Housing Finance for Low-Income Groups by N. O. Jorgensen, HRDU 1976)

4. Ibid.

## C. Review of Housing Cooperatives

### 1. Legal and Organisational Framework of Housing Cooperatives

#### a) Legal Framework

Housing cooperatives in Kenya are governed by a three-tiered legal framework: the Cooperative Societies Act of 1967 (revised 1972), the Cooperative Societies Rules promulgated under Section 84 of the Act, and the by-laws of each housing cooperative society as registered by the Commissioner for Cooperative Development.

The Act is general in nature and is intended to cater for all types of cooperative activities, although it does seem to be primarily concerned with agricultural societies and the marketing of their produce. There is no specific mention of housing cooperatives in the Act although such mention need not be necessary if the Act, the Rules and the by-laws are sufficiently flexible to allow housing cooperatives to organise and operate. The Act does seem to have this flexibility although the section on arbitration of disputes could be interpreted to hinder the ability of a housing cooperative to deal effectively with defaulting members. The Rules likewise do not specifically mention housing cooperatives, but again this is not necessarily a drawback as they seem flexible enough to allow for housing cooperatives. However, one provision of the Rules on the transfer of shares (Section 10 (4)) could be interpreted to prohibit a society from repaying a departing member his share if a loan from an outside body is involved. As long-term loans from outside the society will almost invariably be the case with housing cooperatives, this provision of the Rules could hinder the transfer of shares from outgoing to incoming members.

The model by-laws for housing cooperatives currently in use are certainly flexible enough. In fact, they allow too much flexibility for it is at this level of the legal framework that housing cooperatives and their operations must be clearly defined. The model by-laws are deficient in this respect in several crucial areas: the ownership and control of the land and housing to be provided to members, securing long-term finance for housing development, valuation of shares, establishment of reserve funds peculiar to housing cooperatives (maintenance, vacancy, delinquency and replacement reserves) and delinquency procedures. None of these critical aspects is adequately covered in the model by-laws, even though the Rules require specific provisions to be made in the by-laws for most of them.

The team recommends that specific technical assistance be provided for a thorough revision of the model by-laws. This may have to await the publication of the latest revision of the Act which the team was informed had been recently completed.

b. Relevant Government Agencies

As set forth in the Cooperative Societies Act and Rules, housing cooperatives basically deal with the Department of Cooperative Development of that Ministry. The Department is responsible for supervision of all cooperative societies and their activities, including housing. This supervision includes registration and liquidation of societies, inspection and audit of books of accounts, arbitration of disputes, etc. The Department also provides promotion and education services in connection with cooperative development, although these services are sometimes provided by outside bodies such as COTU and by relevant sections of the cooperative movement itself, as in the case of the Kenya Union of Saving and Credit Cooperatives.

In the case of housing cooperatives, the Department has not been in a position to offer much assistance to the societies apart from registration and inspection. This is due no doubt, to the extremely complex nature of housing cooperatives and their relatively recent arrival in Kenya (apart from the Muslim societies which have been largely self-sustaining throughout). Housing cooperatives have also on occasion dealt with other government agencies involved in supply of land and finance for housing, such as the Ministry of Lands and Settlement, the National Housing Corporation and the Nairobi City Council. More detail on the specific relationships between existing housing cooperatives and government agencies is provided below.

c. Structure of the Cooperative Housing Movement

As indicated below, an appreciable number of housing cooperatives have been registered, but few have actually been very successful. There is no cooperative housing movement per se and no organisation above the primary society level, although there were tentative plans at one time to form a national union of housing cooperatives. There is thus no central focus or direction for housing cooperatives and each society operates independently and without benefit of the experience of other societies.

Although at least one existing society has received loans from the Cooperative Bank, and several have been assisted by savings and credit societies, there is no formal or on-going relationship between housing cooperatives and other segments of the cooperative movement in Kenya, to say nothing of relationships to other concerned government agencies such as the Ministries of Housing and Social Services, and Lands and Settlement, the NHC, and the HFCK.

2. Brief Description of Existing Housing Cooperatives<sup>1</sup>

It will be seen from the following brief description that housing cooperative societies in Kenya fall quite distinctly into two groups. One group consists of

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1. A list of cooperative housing societies is attached as Appendix 3.

some 23 newer societies organised by indigenous Kenyans planning or in the process of building low-cost houses. The other group consists of eight religiously based cooperatives registered by Muslim communities in Nairobi and Mombasa, some as early as 1948. Having already acquired medium cost housing for their members (maisonettes as well as flats) the function of these societies is purely to maintain the structures on behalf of their members, who now have individual ownership after mortgage loans have been paid off.

On the whole, it is the latter group which has fared best. An average of 100 members in each society bought share of KShs.500 in the society and on this basis they were able to raise additional capital from religious foundations, such as the Islamia Jubilee Trust Fund and from insurance companies at market rates. Construction of houses as well as flats was usually carried out by members of the community itself. The average price of these (at the time) medium cost housing units was KShs.40,000 per unit. The mortgage financing to be repaid over 16 years at 6% to 8% per annum, gave a monthly repayment of about KShs.250,000. After repayment the house or flat became the property of the member and he was free to sell it, rent it or stay on. Because of the strong common bond plus the income and educational level of the members, few serious problems arose and the societies have not asked for, nor needed, supporting services from the Ministry.

More recently, the exterior of some of the blocks of flats suffer due to lack of agreement and coordination among present owners (whether absent or resident) as to maintenance. The temptation to sub-let units at a higher price than the one set by loan repayments may have been as great as in some of the new societies; however, this has not been a problem for these societies which regulated against it and found that loyalty and proximity of members ensured that regulations were enforced.

The other large group of more recently registered societies form a somewhat heterogenous assembly of dormant, active and not yet active cooperatives, some of which do not strictly conform to the definition of a housing cooperative in that they are primarily interested in producing houses and should therefore rightly be classified as building cooperative societies. Their degree of success has also presented less than a clear picture. Out of the 23 societies in this group only five have been able to acquire land and actually build houses for their members, namely Gikomba Building Cooperative Society, Huruma Housing Cooperative Society, Kariobangi Housing and Settlement Cooperative Society, Mwana Mukia Cooperative Society, Thika Housing Development Cooperative Society.

One society bought an undeveloped plot and is looking for long-term finance. Four societies have bought commercial buildings in order to raise capital for house construction, three societies are dormant or under investigation for various reasons, one society was formed for the purpose of improving sub-standard houses built in Kangemi (near Nairobi) on free-hold plots, and another society was formed by middle and high income individuals under the

impression that, provided they put down a sizeable amount (KShs.25,000) as share capital, they would eventually be allocated houses in a new estate near Nairobi. This society has so far proved unsuccessful in obtaining long-term finance.

The remaining societies have registered themselves but not yet become operational. In a report<sup>2</sup> from 1968 the author writes that "Of the six African societies, one is without money because of fraud and one is in liquidation which leaves only four viable societies in the low-cost housing sphere." Only two of the societies mentioned are still among those listed as active in 1978.

The main characteristic of these societies active and with some record of meeting their objectives is that they have done so in spite of poor management and endless problems with accounting, acquiring land and funds. One society, The Gikomba Building Cooperative Society, formed by 50 people having been allocated plots in the Kariobangi Site and Service Schemes, waited for over two years for a loan from the NHC, which having finally approved the loan eventually channeled it through the Nairobi City Council (NCC) in order to obtain the Council's guaranty. The loan of KShs.200,000 was finally given on the additional security of three houses already built by the society's own resources. In 1973 the same society obtained yet another loan of KShs.208,000 from the same source and on the same terms (10 years at 7%) in order to complete 43 units in total. Rooms in individually owned houses are rented to non-members, and only 10 members actually live in their houses today.

This has been a profitable business for the members but continuous squabbles within the committee and a complete and unchecked authority by a few persons on the committee has resulted in accounts and records being in total disarray. One loan is almost paid off, but on the second a balance of KShs.55,000 remains. At this point allegations abound about the former secretary having stolen not only funds but all records and has disappeared. Members are demanding a statement from the NCC for each account but are sure that they have been defrauded of several recent payments.

These are illustrations of the kinds of situations which have made the general public cautious about joining housing cooperative societies. Alternatively, people have formed ordinary limited companies which in some cases are reported to be easier to run, and without the rather cumbersome bureaucratic procedures of the Ministry of Cooperative Development. Instead they often have a few strong personalities running the company who are also the ones with the biggest economic stake. Many of these companies formed in the largest squatter settlement near Nairobi, "Mathare Valley." They seem to have had little difficulty raising equity capital and some of them are well managed and extremely profitable for the shareholders.<sup>3</sup>

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2. "Housing Cooperative Societies as a Source of Finance for Low-Cost Housing," N.O. Jorgensen, Economic Study No. 1, HRDU. University of Nairobi, 1968.

3. "Mathare Valley, a case study of uncontrolled settlement in Nairobi," D. Etherton et al. HRDU University of Nairobi, 1971.

The types of housing provided by the Gikomba Society plus the units developed by the Thika Housing Development Cooperative Society (previously, Kenya Cannery Savings and Credit Cooperative Society) are all distinctly for the lower middle income group with three rooms with water and waterborne sanitation (wet-core outside the main house) at costs around KShs.14,000 per unit. The Huruma Housing Cooperative Society, like the Gikomba Society, was formed by very poor people who had been evicted from their previous residence in a squatter area. The Huruma Society is supported by the National Christian Council of Kenya (NCCCK) which provided an interest free loan of KShs.750 per member plus technical support and close supervision over collections. The structures are somewhat cheaper, costing on the order of KShs.10,000 and consisting of two rooms on a serviced site of which one is sub-let.

It is the finding of the study team that income conditions of members in any of the societies change drastically from the moment they take over a completed dwelling and immediately start to sub-let. In most cases incomes are doubled and in some cases, trebled.

The team has drawn heavily on two reports produced very recently by local institutions<sup>4</sup> and both containing existing housing societies in Kenya plus extensive bibliographies. The conclusion of both of these reports, and one in which this team concurs, is that the housing cooperatives have and continue to encounter their most severe problems in three main areas:

1. Lack of serviced land on lease-hold terms;
2. Lack of access to long-term finance;
3. Lack of technical, managerial and administrative expertise.

It is also appropriate to note here that whereas in the case of agricultural cooperatives, the Kenya Government has tied cooperative development to the overall agricultural development policy; this is not the case with housing cooperative societies, which although mentioned in the Development Plan, have never been seen as making a major contribution to the overall urban development and housing policies in Kenya. As a result, specific and massive programmes to use this channel for generating and mobilizing housing resources have not been launched on any scale which resembles those in the agricultural sector.

Lack of Serviced Land on Lease-hold Terms: The availability of land is not seen by government officials and society members as the main problem as yet. However, it is likely soon to be. A couple of housing societies have been allocated land by the Commissioner of Lands some time back (up to four years in one case) and have not yet started to develop due to lack of

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4. "Housing Cooperative Societies in Kenya" by M. S. Muller, HRDU, University of Nairobi. May, 1978. "Survey on Potential and Possibilities for Cooperative Housing in Kenya" by Claus Coln, Nordic Project for Cooperative Assistance to Kenya. 7th June, 1978.

finance. Likewise, a housing company formed by the Civil Servants Union has been able to secure land in Nairobi and several other towns for housing projects for union members. Several societies complained about not being allocated enough or any land at all in suitable places. If they have to purchase privately owned land as some of them have, they would have problems raising finance for construction of houses. Serviced land on a lease-hold basis is the ideal arrangement for low-income housing. Site-and-service schemes would thus be well suited for the cooperative housing societies. Large site-and-service projects are now under way in Kenya financed largely by the World Bank.

The allocation of such sites to cooperative societies will inevitably be based on their viability and good management plus their access to long-term finance, both of which are salient components of viability. In addition to the availability of serviced sites, it is important to point out that at least two societies (Huruma and Thika) have suffered unduly by having had to apply building standards which in their view were much too high. Grade II Building by-laws ought to be acceptable in such areas which means that the use of semi-permanent building materials will be permitted.

Lack of Long-term Finance: Apart from the Gikomba Society none of the other societies of recent registration have had access to regular public funds for house construction. The Thika Society obtained a short-term loan from the Cooperative Bank and a six-year interest-free loan from NCKK. As pointed out above credit-worthiness depends on management and feasibility of the project. The record here is not impressive, but it is fair to say that of those societies which have made use of outside funds, none have defaulted on their commitments.

This demonstrates the viability of housing investment at all cost levels, and in the case of Gikomba the members are effectively collecting monthly rents from sub-tenants, and making group payments to the NCKK. In the Thika case, a check-off system provided by the employer is used.

The profitability of housing investment also points out the false argument often advanced in all sincerity on behalf of the low-income groups, namely that loans for housing need to be subsidised in order to be affordable. Quite the opposite is the case. Even interest rates which directly reflect the entire cost involved in administering small loans can well be afforded by the low-income worker if credit were only available.

In addition, it should be pointed out that groups of typical low-income workers have shown remarkable ability to save for housing and other purposes as demonstrated by the success of the Savings and Credit movement in Kenya. The creation of the Finance Company of the Cooperative Bank is the first step in the direction to provide the kind of finance needed for housing cooperative societies.

Lack of Technical, Managerial and Administrative Expertise: The most fundamental problem for existing housing cooperatives has been the lack of support services to make up for their own shortcomings. On the basis of personal interviews by the team and in discussions with the authorities, the most prominent difficulties facing cooperatives include the following: the design of units or projects; the problem of identifying and securing land for projects;

the inability to keep proper accounts and enforce regulations set by the society; and the lack of long or medium-term financing. Frustration and internal strife have resulted and the image of cooperatives has been tarnished, in some cases unfairly, but nevertheless to the point where local authorities, financial institutions and the public at large have become apprehensive about getting involved with such societies.

Quite obviously the motivation, whether out of desperation or greed, on the part of those who joined recently formed housing cooperative societies has been to secure a house for themselves. There is nothing intrinsically wrong with this approach, even if it does not always comply with the purest of cooperative principles and ideas. Some of the societies saw their role as finished when they had secured houses for all their members; others saw an on-going role in continuing to function as a developer acquiring more land and building more houses for the existing members, possibly inviting new members who already had a plot on which to build. In fact, the prerequisite for joining Gikomba, Huruma and some self-help associations in the Dandora Scheme has been that a member must have a serviced plot ready for development. At this time, there is no evidence of cooperative societies which plan continued ownership by the society of the housing commonly provided for in the more typical cooperatives in Europe, North and South America.

In Kenya, the distinction between a housing cooperative society as opposed to a building cooperative society is not always made. For instance, the Gikomba society is registered as a building cooperative society, although it has built houses only for its members.

In the team's view, there is a clear need for intensive education and training programmes, as well as organisational, financial and technical guidance so desperately needed by existing societies. The organisation, function and financing of an institution to provide such services is described in a succeeding section of this report. However, it should be pointed out here, that a number of housing ventures for the low-income groups in Kenya are organised neither as cooperatives nor as companies, but simply registered under the Societies Act as "Self-Help Associations," "Harambee Groups," or not registered at all. Likewise, there are Savings and Credit Societies which provide loans to their members for house construction in their home areas or as down-payments on urban housing units.

In spite of the difficulties housing societies have faced it is the team's opinion that there is a need for and ability to develop cooperative housing programmes, and if given proper support, there is the potential for increased production of housing for low-income workers all over the country, particularly in urban areas.

There follows a brief case study of the Huruma Cooperative Society as an illustration of what could be refined, adapted and replicated on a much larger scale.

### 3. Summary of a Case Study

In January of 1970, 425 families were living under substandard conditions in one of the poorest squatter settlements in Nairobi called the Kaburini settlement. Shortly after that they were forcefully removed without being offered alternative accommodation other than a charitable arrangement in Karuma Forest where the Salvation Army and the National Christian Council of Kenya provided them with tents and food.

Those who agreed to live in the forest camp became known as the Mji wa Huruma people. The Nairobi City Council in late 1970 approved a plan by which the Huruma people would be resettled in a new site-and-service scheme with financial support from NCCCK. At the time of eviction the population data was as follows:

- The total number of people . . . . . 1,650  
(Of these, 825 were adults and 825 were children)
  
- The total number of households . . . . . 425  
(Of these, 389 lived in one room, 36 in two rooms)
  
- The typical household consisted of 6 people  
(Of these, 2 were adults and 4 were children. There were 80 single adults.)
  
- The typical income per month was . . . . . KShs.120  
(But 7 claimed no income and 20 claimed incomes of KShs.500 and above)
  
- The typical rent for one room per month . . . . . KShs.25  
(Only 2 claimed rents of less than KShs.20 and 1 claimed rent of more than KShs.60.)

There are now a total of 120 heads of households as members in the four self-help groups NCCCK supports in the serviced site scheme which is now known as the Huruma Estate and located at the eastern end of Nathare Valley.

Only one of the four groups is registered as a housing cooperative with the Department of Cooperative Development, the other three are registered as self-help groups with the Registrar of Societies. Group membership varies between 20 and 75 people. Letters of allotment have been issued to all allottees and the NCCCK offered a building loan of KShs.7,500 to enable the members to complete two rooms of a house design provided by a private architect. Each group requested its members to contribute KShs.2,000 towards the completion of the individual's house, but since income is low the members are permitted to pay whenever they can. The loan from NCCCK is interest-free and to be repaid in 75 monthly installments of KShs.100.

From the start difficulties arose. The NCCCK had based its cost estimates on the use of semi-permanent materials. After several houses had been completed the City Council rejected them for not complying with building by-laws. All construction stopped for nearly two years. A new design was provided by a council architect and using permanent materials building costs rose to twice the original calculation.

Members are permitted to sub-let, and room rents in the area bring about KShs.200 per month. KShs.100 goes to repay the loan, KShs.50 to cover water charges and rates and for most members another KShs.50 goes towards the KShs.3,000 contribution to the groups' building funds.

NCKK has an agreement with each group that it administers each loan individually but the group has selected leaders who do the actual collection every month and bring it to the NCKK office in town. The Certificate of Occupation issued to all allottees by the City Council is held as a surety with the NCKK. This means that a member with a loan outstanding cannot transfer his property without approval by NCKK.

Regulations governing the allocation of plots in site-and-service schemes normally specify that if an allottee wishes to sell his/her plot within the first five years after allocation it must be sold back to the local authority. This condition has not always been complied with and is very difficult to enforce. The result is illegal transfers which lead to complicated litigations. Housing cooperative societies would be in a better position to comply with and enforce this condition because of their common bond and collective obligation to repay external financing.

NCKK reports that the repayment record is satisfactory and they have the right to collect the KShs.100 loan repayment from the subtenant in case a member does not pay without a valid reason. There appears to be a true sense of group responsibility for payment of the monthly quotas.

NCKK also provides technical and social support to the scheme and has acted on behalf of the plot holders in discussions with the City Council. The main difficulties have been to keep the groups together during the long period when construction was suspended and to be able to comply with the building regulations once construction was resumed. Rising cost of building materials is cited as another problem and members interviewed stated that they suspected office bearers of the groups to be misusing funds trusted to them for the purchase of building materials. Construction, although ostensibly by self-help, is carried out with the help of several craftsmen who are hired by the group on contract terms. Technical supervision is carried out regularly by the City Council inspectors.

The structures consist of stone-built rooms (2) of about 10m<sup>2</sup> with galvanized iron sheet on the roof and no ceiling, cemented floors and a wet-core separate from the house. There is no electricity provided.

The four groups in Huruma show that very low income workers can be successful in housing themselves provided they have a place to build and access to loan funds plus the continued support of an organisation, in this case a voluntary one, which is committed and has skills. It was admitted that even if the loan from NCKK had carried a commercial interest rate the beneficiaries could still have afforded it if the repayment period had been extended to 10 instead of 6 years.

D. National Cooperative Housing Programme for Workers

1. Scale of Programme

Based on estimates of the availability of long-term finance, the absorptive capacity of housing cooperatives, and the gradual growth of the institutional framework as outlined below, the team recommends a cooperative housing programme for workers which would be national in scope. The start would be modest, involving only few hundred units in the first year but the programme would increase steadily each year so that by the tenth year, a cumulative total of over 18,000 units of housing would have been produced. The total long-term capital requirements over this period would be approximately KShs.450 million, including nearly KShs.100 million from the housing cooperatives themselves.

ESTIMATED REQUIREMENTS OF COOPERATIVE HOUSING PROGRAMME

YEAR	<u>KShs.(000) in 1978 prices</u>			<u>Units at KShs.25,000</u>	
	NSSF (a)	OTHER INTERNAL AND EXTERNAL (b)	DEPOSITS (c)	UNITS STARTED	CUMULATIVE UNITS STARTED
1	4,000	2,000	2,000	320	320
2	6,000	4,000	3,000	520	840
3	8,000	4,000	4,000	800	1,640
4	10,000	16,000	6,000	1,280	2,920
5	12,000	20,000	8,000	1,600	4,520
6	14,000	24,000	10,000	1,920	6,440
7	16,000	30,000	12,000	2,320	8,760
8	18,000	36,000	14,000	2,720	11,480
9	20,000	40,000	15,000	3,000	14,480
10	24,000	50,000	20,000	3,760	18,240
Total	132,000	230,000	94,000	18,240	18,240

- a) NSSF invests initially 1% of revenue, rising to 5%.  
NSSF revenues will also be increasing correspondingly.
- b) "Other" refers to other long term mortgage financing.
- c) "Deposits" refers to members own savings, etc.

## 2. Proposed Institutional Framework

### a) Description of Proposed Agency

On the basis of discussions in the public and private sectors, and of our experience in numerous other developing countries, the team feels that to successfully launch a cooperative housing program in Kenya which will have a nationwide impact, a national sponsoring organisation for housing cooperatives must be formed. Similar recommendations have also been made in two recent reports<sup>1</sup> on housing cooperatives in Kenya. This point of view was also supported by the inter-agency meeting on cooperative housing held at the Milimani Hotel, in Nairobi on June 9 and 10, 1978. The participants concluded that while there are other entities such as the NHC and the local authorities involved in fostering shelter and housing for lower income groups, there is a definite need to create a specialised organisation to promote, implement, and manage cooperative housing programs at the national level; and that cooperative programs would complement and be additive to existing housing programs being developed by existing organisations.

The proposed national organisation, called the National Cooperative Housing Agency (NCHA), will act as the primary advocate and sponsor of housing cooperatives both at the national and local levels. Its functions will include the organisation, endorsement of cooperative societies, the planning and development of feasible housing projects for presentation to investors; assistance in securing land and financing; and the provision of financial and estate management services.

The team has studied the existing housing cooperatives, both through direct contact and a review of existing documentation, and found that of the 30 or so societies registered only 4 or 5 have actually succeeded in providing houses for their members. Even these few with some degree of success are experiencing severe difficulties. There are a number of reasons for this situation, but one of the major reasons is the lack of technical, organisational, financial and legal services to assist housing cooperatives to achieve their goal.

More specifically, the kinds of services required by housing cooperatives include:

- i) organisational: formation and endorsement of housing cooperatives, education of the membership, establishing the by-laws, preparing for registration by the Department of Cooperative Development;

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1. Housing Cooperative Societies in Kenya: Performance and Potential, M. S. Muller, May 1978, HRDU, pg. 21; Housing Cooperatives, Claus Coln. May 1978 pg. 64, 67.

- ii) planning: determining housing requirements of prospective membership, establishing feasible plans for satisfying those requirements including costs, sources of financing and repayment terms;
- iii) design: preparation of site and house plans based on the planning guidelines above and based on the financial capacity of the members; assistance in the design and organisation of self-help and mutual help shelter and housing programs;
- iv) intermediary: assistance in locating and acquiring land, in securing long-term financing, in engaging a building contractor, and liaison with local authorities and national housing agencies;
- v) estate and financial management: establishing and maintaining books of accounts, monthly payment and delinquency procedures, auditing, collection and maintenance reserves, and organisation of savings schemes.

These services are not currently available to housing cooperatives. They should ultimately be provided on a nationwide basis if any amount of housing is to be provided through cooperatives.

The experience of FCH in more than 30 developing countries, an intimate knowledge of the European and U.S. cooperative and non-profit housing movements,<sup>2</sup> and a thorough examination of existing institutional structures in Kenya, all lead the team to conclude that a national sponsoring organisation for cooperatives is essential. While many of the European cooperative housing movements developed slowly from the grass roots, FCH feels that the developing countries do not have the privilege nor the time to wait for a totally spontaneous development of a cooperative housing movement that evolved in Europe over a period of 100 years.

To rely on an unassisted gradual spread of the cooperative housing movement in Kenya would be unwise and probably mean it would only begin to be effective within 2 or 3 decades. The team feels that the lower income workers and the government cannot afford to wait for only private initiatives in this field, for shelter needs of the people are critical and must be met as rapidly as possible.

The NCHA would coordinate and orchestrate the required inputs from various government and private organisations, and work with the housing cooperatives to plan and prepare their programs for prospective lenders.

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2. For a description of the evolution of the European Cooperative and non-profit housing movements and the role of the state see Address by J. Edmondson to the Kisumu Workshop on Housing for Low Income Workers, Nov. 25, 1977 pgs. 5-7.

Of special significance will be the estate management and collection services provided to the cooperative societies by the NCHA which should effectively insulate government agencies from the collection process. Experience in many countries has shown that local and national government agencies do not make the best landlords.

Recommendation: Based on the foregoing the team's primary recommendation is the immediate establishment of the National Cooperative Housing Agency as a non-profit yet self-sustaining corporate body, pursuant to an act of Parliament sponsored by the Minister for Cooperative Development. The NCHA will act as the primary advocate and sponsor of housing cooperatives at the national and local levels, and in the urban and rural sectors.

b) Legal Structure

In arriving at the recommendation to establish NCHA as a para-statal organisation, the team looked at the following organisational alternatives:

- i) a new unit within the Department of Cooperative Development with the necessary additional staff;
- ii) a special wing of the KNFC;
- iii) a cooperative apex organisation similar to KUSCCO;
- iv) a non-profit body organised under the Companies or Societies Acts;
- v) a non-profit para-statal agency with representation from the concerned agencies and prospective beneficiaries, and with enough strength to develop, coordinate, and implement programs of scale.

The first two of these were eliminated, primarily on the grounds that a national cooperative housing movement in Kenya needs an organisational base which involves the active participation of both the public and private sectors, and particularly the trade unions.

The third alternative, a cooperative housing union or apex organisation, was discarded because this would require a strong primary society membership base which does not currently exist. Nor would this type of organisation allow for the required degree of active participation from all the sectors involved in housing. Finally, a union or apex organisation would lack the necessary motivation to continue to push for new cooperative housing for workers since it would be largely comprised of cooperative societies having already satisfied their housing needs.

The fourth option was seriously considered but had the disadvantage of being just another association organised under the Societies Act or a normal company as prescribed under the Companies Act. Neither form would have elevated the NCHA to a truly national perspective with the needed strength and participation from both the government and private sectors.

After careful consideration and consultations with many people, including the Attorney General's Chambers, it was concluded that a para-statal statutory corporation, similar to the commodity boards such as the Coffee Board of Kenya, or the State Reinsurance Corporation of Kenya, was by far the preferable alternative, even though it will require an act of Parliament.

The NCHA would be a body corporate, and could sue and be sued, purchase, hold, manage, and dispose of land and other property for the purpose of performing its functions under the Act. As stated in the recommendation its main function would be to provide services to and represent the interests of cooperative housing societies to achieve their objectives of obtaining decent housing.

The NCHA would be governed by a Board of Directors of up to 14 members representing each of the following government and private organisations: The Ministries of Cooperative Development, Housing and Social Services, Finance and Planning, and Lands and Settlement, the Cooperative Bank, KNFC, COTU, KUSCCO, KFE, HRDU, NCKK and ultimately up to three members selected from the cooperative housing movement once it comes into existence.

The team is of the opinion that the Joint Preparatory Coordinating Committee (described later in this Report) should consider an alternative arrangement by which some or all of the members of the Board from the government agencies might withdraw after the NCHA becomes self-sustaining, thus leaving the control largely within the private sector.

The Board would provide the overall policy for the NCHA as well as facilitating the implementation and coordination of programs through their respective organisations or agencies.

A five member Executive Committee of the Board would be established, to provide the detailed guidance to the management of the NCHA. It would include those Board members representing the Ministries of Cooperative Development and Finance and Planning, the Cooperative Bank, COTU and one other member to be selected by the full Board.

#### c) Organisational and Staffing Pattern

At the operational level the NCHA would be headed by a director of appropriate experience and education. While experience in housing and cooperatives would be useful, a person with proven management experience and the ability to assemble, direct and harmonise a diverse team of professionals and para-professionals would be the most appropriate choice.

There would be three operational departments:

- i) cooperative organisation and community development department: which would be responsible for organising, sponsoring and endorsing housing cooperatives, educating the membership and providing the social inputs throughout the development process;
- ii) project development department: making arrangements for site planning, house design, organisation and supervision of self-help and mutual-help construction efforts (in cooperation with the cooperative organisation and community development department), and other technical services;
- iii) finance and administration department: responsible for financial planning for housing cooperatives and economic analyses of housing projects, budget, fiscal and personnel matters of the NCHA itself, loan servicing with the housing cooperatives on behalf of lenders, liaison with housing finance institutions, and estate management services (in cooperation with the cooperative organisation and community development department).

The three departments would be headed by deputy directors with suitable background and experience in the areas of responsibility of each department. Each department would require appropriate staff: cooperative organisers, architects, draftsmen, accountants, estate managers, secretarial personnel, drivers, member liaison, etc. The size of the staff would depend on the size of the cooperative housing programme but in any case it would be relatively small in the initial stages and expand as the programme expands. A staff of 13 to 15 would probably be sufficient to launch the NCHA and develop the initial program.

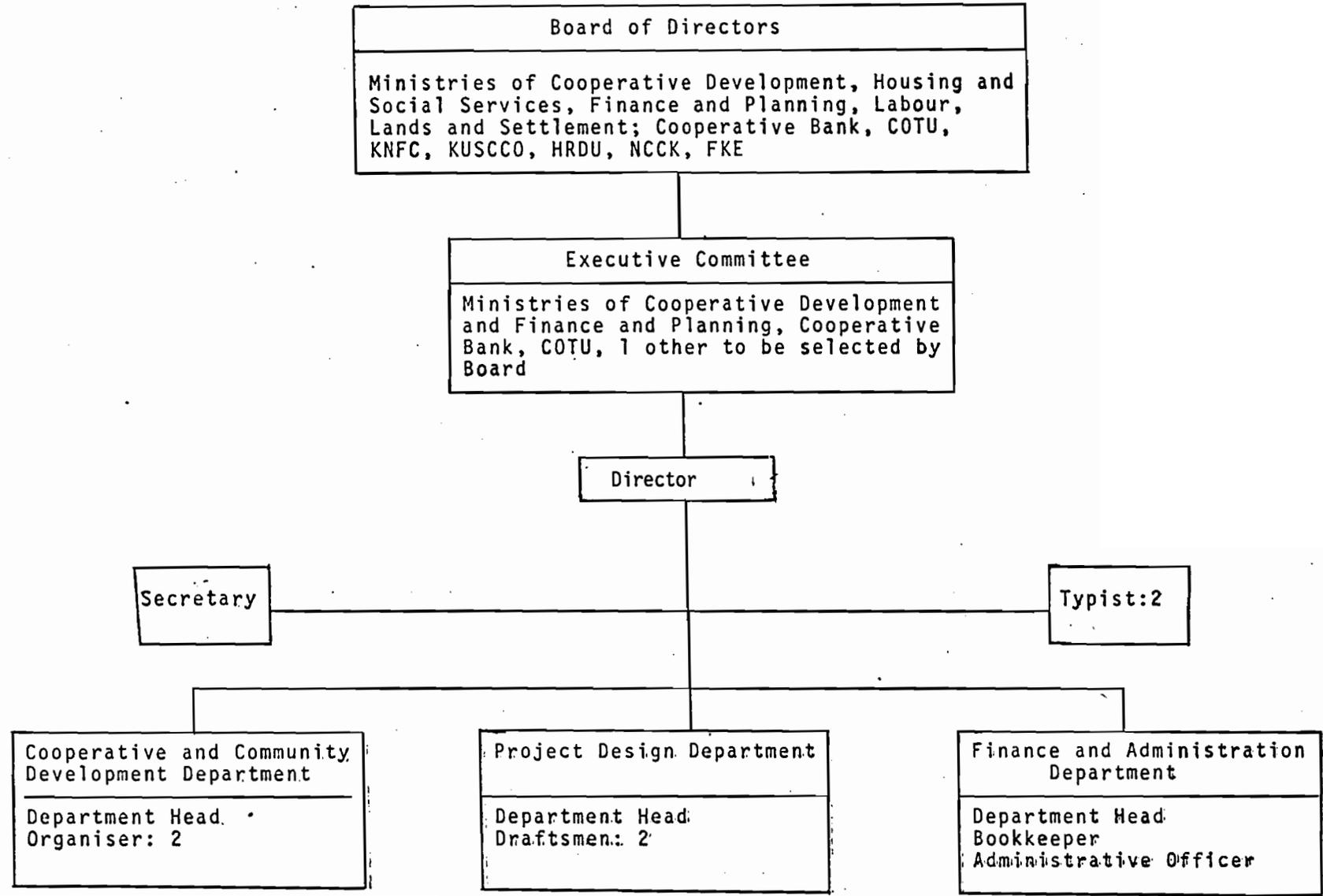
At the outset, the operating expenses of the NCHA would have to be underwritten by the government, at least for the first 4 to 5 years. (See part D.2.f.)

The NCHA should eventually become self-supporting and it would charge an economic rate for its services to the housing cooperatives it sponsored to be included in the total project cost.

Technical assistance will be necessary and would probably involve three experts, including a housing cooperative generalist, a cooperative housing business management and finance specialist, and a cooperative housing community organisation specialist. These experts would assist the NCHA director and the department directors to plan and implement the cooperative program.

Legal services would also be required on an ad hoc basis for and on behalf of the cooperatives, and for the NCHA itself, and would be obtained on an "as needed" basis during its formative years.

NCHA Organisation Chart: Initial Phase



d) Method of Operation and Relationship to Existing Institutions:

- i) operation: The NCHA will be charged with the continuing responsibility of developing new cooperative housing programs for its worker constituency.

Initial programs will be launched in close collaboration with the COTU affiliated trade unions and other unions, who will assist in the identification of prospective cooperators. Projects will be tailored to fit different income categories and savings programs will be initiated either in the cooperative housing societies themselves, once they are registered, or through savings and credit cooperatives.

To the extent practicable, NCHA will encourage cooperative membership where common bonds already exist, such as place of work, membership in a trade union or credit union, etc. However, given the scale of projects to be developed, this may not always be possible or even desirable. Cooperative projects with membership from diverse groups and income levels may be required and should not be viewed inimicable to the proper structure of a cooperative.

In approving members for projects, and especially those financed in part by external donors, certain maximum income limitations will have to be set. Where possible NCHA will urge the development of projects with a diversity of income levels. Lot size options for cooperative members may range from sites and services and materials loans, up to completed units. In a large project from 500 to 1000 units, it may be desirable to have a series of smaller cooperatives or sub-cooperatives with 50 to 150 members each.

In the formation and registration of housing cooperatives, the NCHA will actively collaborate with the Department of Cooperative Development and COTU and will initiate an education and leadership training program for members. The team cannot underscore this point enough, for it is during this period that the members must understand their rights, obligations and responsibilities as housing cooperators. It is essential that the cooperatives be managed with scrupulous fiscal responsibility. The NCHA will assist the cooperatives in this respect.

At some point prior to making the required financial arrangements with a lender for the project, the NCHA and cooperative society will enter into an agreement which will stipulate the services to be performed by the NCHA for and on behalf of the cooperative. This agreement will also cover the development service fee, charged by the NCHA for its services, which would be payable from the loan proceeds.

Under most circumstances, prior to initiating a membership or subscription to membership program, the NCHA would have identified a site and have construction and long-term financing arranged.

- ii) other relationships: A primary function of the NCHA then will be to work closely with the Ministry of Lands and Settlement and the local authorities in identifying suitable land parcels for future cooperatives, or a piece of a larger program in which the cooperatives would be allocated a portion. For example, it is understood that the Nairobi City Council has plans to allocate 700 plots for cooperatives in the second urban project of the World Bank. If NCHA is created in a timely manner, this might well be one of its early projects.

Some town councils and the NHC have sophisticated technical divisions. When cooperative programs are developed as part of a larger scheme the NCHA should be able to rely on certain technical inputs from those agencies, especially concerning plans and specifications and other technical details including the design and construction of infrastructure. Site planning for a cooperative project or one within a larger scheme would require special attention from the NCHA technical department to insure that it incorporates design features suitable for the cooperative(s) involved, including such things as common areas, community and cooperative facilities, commercial, trade and work areas.

In other words, the NCHA would use the technical services of other bodies to the extent practicable in a given situation, i.e., the NHC, local authorities, etc. In all cases they would exercise overall surveillance over plans and specifications and the execution of the works themselves.

In the case of materials loans, mutual and individual self-help, the NCHA Project Development Department and the Cooperative Organisation and Community Development Department would be closely involved in direction and supervision of works. The positive experience with the building groups in societies at the Dandora Site and Service Scheme is a useful experiment and should be looked at to see how that experience might be integrated or fashioned into cooperative programmes.

Contracting for infrastructure and basic units or completed housing would normally be carried out by NCHA on behalf of the cooperative. As indicated above, collaboration with local authorities and the NHC would be sought when their interests coincide. In the cases where local authorities do not have the technical capacity, such as in the rural areas, cooperation with NHC would be particularly important. One would foresee various areas of cooperation, especially when the cooperative forms part of a larger program.

Recommendation: The team proposes a special relationship between the NCHA and the Cooperative Bank, the HFCK and the NHC which would give these institutions the assurance that cooperative projects presented to them for their financing, and endorsed by NCHA, are indeed feasible projects.

Once the cooperative program gets underway, these institutions should consider adopting regulations which would require housing cooperatives to have the endorsement and sponsorship of the NCHA. The financial institutions would rely on this endorsement, as well as their own feasibility review, as a basic stamp of approval and prerequisite to authorizing loan disbursements.

This procedure would also have the advantage of weeding out unworkable or unviable cooperative societies. It would also ensure that the cooperatives receive the on-going services of a specialised organisation in estate management, financial control and auditing.

If the primary financier for cooperatives is to be the Cooperative Bank through its mortgage subsidiary, it would be necessary for it to develop mortgage expertise. Or perhaps the HFCK could act on their behalf for project approvals. Alternatively, the HFCK might be engaged to assist in developing the Bank's required expertise in mortgage lending.

e) Types of Housing Cooperatives

The NCHA will work with interested groups within the target group to form housing cooperatives and assist them in securing housing for their members. The NCHA will also assist those existing housing cooperatives who have land to secure the necessary financing for their housing projects.

In organising new cooperatives, a logical starting point would be those trade unions whose membership is currently not adequately served in relation to housing, and because trade unions provide a common bond around which to organise. However, the programme would not be limited to trade union members and the NCHA would assist in the organisation of any group of workers interested in housing themselves.

Although the focus and emphasis of the cooperative housing programme would be on low-income workers, those of higher income would not be excluded, whether the common bond was a trade union or not. In fact, the team feels that a broad socio-economic range in the membership of a housing cooperative should be actively encouraged, both from the point of view of serving all those who are in need of housing and because of the economic advantages. Thus, for example, in a trade union whose members earn incomes ranging from KShs.600 to KShs.3,000 per month, the housing cooperative membership would be drawn from the entire income range and the housing project for that cooperative would be designed, both technically and economically, to serve the different needs and capabilities of that range.

Since most workers live and work in the cities and towns of Kenya, it is assumed that most of the housing cooperative demand will be in the urban areas. Indeed, the direct observation of the team and the interviews it had, indicate this to be true. However, there was also great interest expressed (and there is obviously great need as well) in housing in the rural areas. The team sees two possible ways in which housing could be provided for workers in the rural areas through housing cooperatives. First, where there are concentrations of workers in the rural areas, such as with teachers in smaller towns, villages and more populous districts, with plantation workers and with similar groups, the NCHA could assist in the organisation of housing cooperatives among those groups for the provision of housing in a single, central location or perhaps several scattered locations. Second, where there is interest in an urban workforce in securing housing in the individual rural home areas of individual workers, assistance and financing for individual rural houses could be provided to those individuals through the mechanism of a housing cooperative organised primarily for the provision of urban housing. In the latter case, an urban worker housing cooperative could serve the individual rural housing needs of those members who might not be interested in an urban house. This would allow economies of scale in the provision of services, monitoring and financing for rural housing from the point of view of the NCHA and the financial institution and would provide an additional mechanism for rural housing finance not otherwise available to the average worker.

The most controversial aspect of cooperative housing organisation in Kenya is the ownership principle to be applied. Individual ownership of the housing units developed by a housing cooperative has been the principle commonly utilised by the existing societies. Many people interviewed by the team insisted that individual ownership was essential to the success of a housing cooperative programme in Kenya, that it was a prerequisite for securing long-term financing and indeed that individual ownership was the policy of the government. Others disagreed with these views and felt that the joint ownership principle was necessary and desirable.

At the meeting on June 9th and 10th, where the team's preliminary findings and recommendations were presented for consideration, the ownership principle was discussed at length. It was felt, and the team concurs in this observation, that individual ownership of the housing units in a housing cooperative would not protect the interests of the target group as the individual would be free to sell, let, or sub-let all or part of his house to whomever he chooses at whatever price he chooses. Thus, the primary target group for which the housing was intended, the low-income workers, would very quickly be excluded. While the restrictions of long-term finance might enable a society to delay this effect, once the individual loans were repaid those members would be free to use their property as they chose. Thus, the following recommendations were agreed upon and are endorsed by the team:

- i) inasmuch as the joint ownership type of cooperative organisation has the advantages of safeguarding the interests of the target group, facilitating the supply of long-term financing and eventually stabilizing rents, it should be pursued as the recommended form of organisation in a cooperative housing programme. This is in keeping with the view of the Minister for Housing and Social Services who said at the Kisumu Workshop, that it is necessary "to ensure that housing intended for the work is preserved for that purpose."
- ii) since the joint ownership principle is not currently that well-known or accepted in Kenya, the short term approach should be flexible and should allow, among others, housing cooperatives involving individual ownership of the housing units (provided the members occupy the units) in order to get the programme moving.
- iii) in order to prepare for the introduction of the joint ownership principle, there should be a programme of education of the general public and of financial institutions on the advantages of joint ownership housing cooperatives.
- iv) where joint ownership cooperatives are organised, there must be a means to determine the value of the share of the departing member and a mechanism to finance the resale of the share to an incoming member.

The organisational forms of housing cooperatives recommended by the team (at least initially) would include the type of housing cooperative mentioned above which retains title to land and buildings, as well as individual mortgage cooperatives, tenant-purchase cooperatives, housing cooperatives involving self-help and mutual-help, cooperatives of single room units, tenants cooperatives, etc., depending on the needs and circumstances of the particular group.

There are several issues related to the ownership principle which must be resolved before the cooperative housing programme gets underway. First, according to Sessional Paper No. 14 of 1975 - Cooperative Development Policy for Kenya<sup>3</sup>, for "production societies such as ranching, large scale farming and investment cooperatives," all income, "including profit, rent income and dividends on stocks and shares is liable to Corporation Tax." It is possible that housing cooperatives could be considered "investment cooperatives," especially if the society owned the land and buildings in perpetuity, and all the monthly payments of members taxed as "rent income." This matter should be cleared up as soon as possible.

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3. Sessional Paper No. 14, Ministry of Cooperative Development, September, 1975, p. 13.

Second, the ability of a housing cooperative to change its ownership principle through amendment to the by-laws should be curtailed, either through additional legal provisions or the announced intention of the Commissioner for Cooperative Development to refuse to register such amendments. This would prevent a society from sub-dividing its property after having registered under the joint ownership principle.

Finally, regardless of the ownership principle, steps should be taken to control sub-leasing of rooms within cooperative housing units. While it is desirable to allow for and plan for such sub-leasing by members in that it increases family income and allows lower-income workers to be served, it should be controlled to the maximum extent possible by the society. Sub-tenants might well be members of the housing cooperative (having purchased the required shares) and would be entitled to voting privileges. In no case should a member be allowed to sub-let his entire unit, unless he is required for reasons of employment to relocate to another place. Occupancy by the member of at least one room of the allocated unit should be a condition of membership, except under very special conditions. If the member must leave the unit, he should be required to sell the unit and/or his shares to a new member through the cooperative which would determine the value of the unit and the shares. An equitable formula for valuing the share must be used which reflects current market conditions, improvements to the unit, depreciation, and the degree of subsidy, if any, in a particular project.

f) Budget and Sources of Funds

Based on the personnel required to provide the services necessary for a national cooperative housing programme as outlined above, the team has estimated an initial NCHA staffing level of 14, including a manager, three department heads, a secretary, two typists, two draftsmen, two housing cooperative organisers, a bookkeeper, an administrative officer and a messenger. Such a staffing level would be sufficient to launch the institution and develop the first year's programme. As the requirements of the housing programme increase, the staff of the NCHA would also increase so that by the 5th year the staff would double to a total of 27, with most of the increase in the three operational departments.

The team estimates that the operating costs (including salaries, office rent, supplies, travel, etc.) of the NCHA would total approximately KShs.700,000 in the first year (including KShs.100,000 for start-up costs in the first year only) and would increase to KShs.1,000,000 in year 5 of the programme. (See Summary of Recommendations #2 on page 1.)

The government should budget sufficient funds for supporting the start-up and operating costs of the NCHA during this period. It is expected that NCHA operating costs would be offset to some degree by the organisation, development, and service fees described in Section D.3. below beginning in year 2 of the programme. As the programme increases this income should increase at a more rapid rate than operating expenses so that by year 5 the NCHA should be approaching self-sufficiency.

g) Technical Assistance

To successfully launch the NCHA the team recommends that a team of three advisors be sought. Experience in the development of similar institutions in Latin America and Africa demonstrate that an institutional and team approach to technical assistance assures the most consistent and successful results. A single organisation with a proven record of assisting the development of housing cooperative programs should be sought. It should also be equipped to handle short-term specialised technical assistance requirements and staff training needs in and out of country. It is recommended that the government approach donors with this concept in mind.

- i) Housing Cooperative Generalist: The team leader would be principal advisor to the NCHA Manager and provide expert advice and counsel on the overall management of the agency. He would be responsible for coordinating the activities of the other advisors.
- ii) Cooperative and Community Development Advisor: The second team member would be attached to the Cooperative Organisation and Community Development Department. He should be thoroughly familiar with cooperative housing with a strong background in training.
- iii) Finance and Management Advisor: The third team member would be attached to the Finance and Administration Department and should possess a solid educational and work background in business management. He should also be familiar with housing finance mechanisms. Experience in mortgage servicing would also be desirable.

Short-term assistance should be available for staff training, cooperative estate management, and such other areas of assistance that the government, NCHA and the team leader deem advisable.

3. Finance for Housing Cooperatives

The limited experience with housing cooperatives in Kenya demonstrates several major constraints, one of which is the lack of long-term finance. However, the team has found that lack of finance appears to be a symptom rather than a cause of the small number of active societies and their limited success.

The oldest of the registered cooperatives are the Muslim societies which had little difficulty in raising funds from their own private sources. Difficulties encountered by the more recently registered housing cooperatives have included skepticism on the part of financial institutions with respect to their management and leadership as described in some detail in Section C.2 above.

The loans provided to existing societies have been on terms which cannot by any standard be considered normal long-term mortgage financing. Both the Gikomba and Thika societies received funds from normal outlets namely

the NHC and the Cooperative Bank respectively. Leasing aside the Muslim-based societies, only the Huruma society has obtained funds from a religious-based, charitable organisation and on very soft terms. In all of these cases, however, it is reasonable to suggest that loans offered on more conventional mortgage financing terms (say 15 or 20 years at 10%), would have been readily accepted by these societies and they probably could have afforded such terms. This assumption is borne out by the considerable savings (self-finance) which these societies had accumulated before and during construction of dwellings and by those societies which have not yet been able to secure land on which to build.

The team found a most positive attitude on the part of some financial institutions towards investment in low-cost housing. They would lend to housing cooperatives which demonstrate ability to produce housing in an efficient and responsible way. It was also found that the cooperatives which have actually obtained loans in the more recent past have been able to save or contribute in kind and have a reasonably good repayment record.

It was pointed out by financial institutions that they will have difficulties in identifying the number and the extent of defaults in housing cooperatives should these occur, unless individual mortgages are established from the outset. The team is convinced that in a properly managed housing cooperative the cooperative form of organisation should serve to eliminate such defaults and make administration and collection easier as has been demonstrated with four recently formed groups in the Huruma Estate sponsored by the NCCK.

#### a) The Credit Cooperatives

The team is encouraged by the success of the savings and credit cooperative movement in Kenya. These cooperatives now have assets in excess of KShs.200 million spread among about 400 societies. At least three factors account for this performance. One is the common bond between members, many of whom are workers from the same workplace. Another factor is the so-called "check-off" system for savings and loan repayments, and a third factor is the support services from a national body (KUSCCO), a pan-African body (ACOSCA), and association with an international organisation (WOCCU).

Some loans given by these credit cooperatives are already used for housing in various ways, such as for repair, expansion, rural housing and down-payments for urban dwellings. In fact, some of the larger credit cooperatives give loans of up to KShs.30,000 over three years at 12% per annum, which some members consider sufficient to complete a house in their home (rural) area. There are plans in at least one credit cooperative to expand the maximum loan sum to KShs.50,000 over five years to accommodate even more housing loans.

#### b) National Social Security Fund

Recommendation: A major proposal of this Report is that resources from the NSSF be earmarked for low-income cooperative housing programmes for workers and channelled to the Cooperative Bank, the NHC, and other suitable financial institutions.

Both at the Kisumu meeting and in subsequent discussions with relevant bodies, consistent and genuine interest has been expressed for the National Social Security Fund to channel funds into housing. Being "workers' money" the cause is justified, but at the same time the financial return to the NSSF should not be more or less than what it would have been in the case of other investments made with these funds. It is significant that the FKE has expressed positive support for this idea and a proposal would carry that much more weight in the NSSF Investment Committee if it were proposed jointly by both COTU and the employers.

It is further suggested that COTU become much more active as a member of the Investment Committee by being represented at the highest level and by presenting well prepared proposals.

The team is convinced that an interest rate of  $7\frac{1}{2}\%$ , similar to the yield of government stock, will be acceptable to financial institutions provided the funds deposited are placed for longer periods such as 20 to 25 years. This also implies commercial rates of interest to be charged on housing loans financed by this source, currently on the order of 10%-12%, which is found to be acceptable to potential borrowers.

Of the monthly contributions of around KShs.33 million to the NSSF it is envisaged that an amount on the order of 5% be invested in housing over the longer term, starting with 1% and gradually increasing as the absorptive capacity of the cooperative housing programme improves. A specific proposal to this effect should be submitted to the NSSF outlining also the conditions on which such funds should be channelled into housing for workers. Institutions which could perform as such intermediaries are the Cooperative Bank, the NHC, the HFCK, the East African Building Society and the Savings and Loan Kenya Ltd. (a subsidiary of the Kenya Commercial Bank).

Earmarking of the funds for particular types of housing can be done in consultation with the institutions. Their willingness to accept such conditions, combined with their performance record for on-lending will determine the amount to be allocated to the particular institution. Except in the case of the Cooperative Bank, conditions cannot, of course, limit the use of funds only to housing cooperatives for low-income workers. It would, however, be for the NSSF to specify that contributing members to the fund have preference. On the basis of annual reports from the recipient institutions on how funds have been disbursed new allocations will be decided.

It is further suggested that in order to provide continued financing for NCHA's future expansion (over and above operational costs), that one percentage point be added (for the benefit of NCHA) to any loan to an eligible cooperative. For example, if NSSF lends to the Cooperative Bank at  $7\frac{1}{2}\%$ , and the Bank takes 2% for administration and NCHA 1%, this would result in a  $10\frac{1}{2}\%$  rate to the cooperative.

c) National Housing Corporation

In accordance with its mandate the NHC should also be encouraged by the Ministry of Housing and Social Services to lend to housing cooperatives which

are found to be acceptable in terms of management, fiscal responsibility and overall project plan. The NHC has particular expertise and capacity to supervise construction in townships outside the major cities and in rural areas and should be encouraged to undertake such lending. In turn the NHC, as outlined above, should become a recipient of NSSF funds as it already is of funds from USAID.

d) External Resources

A growing number of external sources are already providing finance for low and lower-middle income housing in Kenya. Funds being made available from the World Bank, Commonwealth Development Corporation and USAID are considerable, but other sources should be investigated such as the African Development Bank, Arab Funds, the EEC, CIDA, SIDA, etc. The government may choose to channel these funds through NHC, the Cooperative Bank, local authorities or HFCK. In the past several housing cooperative societies have been assisted through the appropriate local authority. The new National Development Plan (1978-83) will emphasize housing through cooperative societies and both the NHC and the Ministry of Housing and Social Services are committed to pursue the objectives and targets of the plan.

e) Other Channels and Mechanisms

It is further suggested that if other private mortgage institutions are prepared to open a special "window" for lending for low-cost housing to people who are already among their depositors, then the government should consider placing external funds also with these institutions as is presently done with HFCK.

In this context the team found it encouraging that loans for rural housing were recently offered by the Kenya Commercial Bank. The performance of this scheme could serve as a lesson to other institutions of this kind. The Cooperative Bank has a limited record of rural mortgage lending, but on short terms. Its new finance subsidiary should greatly enhance its operation in this field.

The team is concerned about the precedent of NHC lending to a housing cooperative society through a local authority. It is felt that a properly organised society sponsored and endorsed by the NCHA, should be able to by-pass the extra cost and bureaucracy of a local authority and get a loan directly from the NHC.

The team also wishes to point out that cooperative societies, especially those to be sponsored and endorsed by the NCHA, are normally in a better position to select an appropriate house design at an affordable cost, and thus avoid vacancies due to poor marketability.

In order to encourage more financing to be channelled to housing cooperatives the schemes must be attractive to the suppliers as well as the consumers of credit. The team has found considerable evidence both in recent reports and in its own observation that housing, particularly low-cost housing such as site-and-service schemes, is of such benefit to allottees that even commercial terms for borrowing include large elements of indirect subsidies by their very availability. In cases where members of a housing cooperative already have access to loans from a savings and credit cooperative they can of course utilise this source for their down payments, but even if they do not have such access they stand to benefit from membership in a housing cooperative by being able to pool their savings, land, labour and other resources as a collective down payment.

Recommendation: It is recommended that loans to housing cooperatives be given on unsubsidised terms in accordance with the borrowers' ability to pay.

This recommendation implies the following considerations:

- that not only present but future income (including income from sub-letting) be considered as a basis for the amount to be advanced;
- that interest rates reflect the risk and expense involved in providing such loans, which to properly organised and supported cooperatives would be less than for other mortgage loans;
- that repayments be allowed on an increasing scale so as to be in step with the income earning capacity of the members and to reach the low-income group of families by lowering the repayments at the start of the loan;
- that down-payments include buildings already erected, labour inputs, collective savings, etc.;
- that security for the loan be enhanced by such things as a life insurance scheme for members, employers' guaranty, occupancy certificates and a check-off system for loan repayments.

f) Cross-subsidies and Joint Financing

Cooperative housing projects are seen to feature a combination of larger and smaller plots (for different types of housing to cater for members of the same society earning different wages) plus common social facilities and possibly a commercial centre.

This type of project would allow for cross-subsidy between commercial and social facilities and possibly between higher and lower cost plots. It would also give the potential investors a choice of loan size in line with their investment policy, and assist them in sharing the risk with others.

It is also proposed that in certain large cooperative programmes sponsored by NCHA and financed by the Cooperative Bank (or through its new subsidiary, the Cooperative Finance Company) that participations be offered to other investors for joint financing.

g) Security of the Loan

Security will inevitably be crucial in the early stages of the programme and two suggestions by the Cooperative Bank appear to be plausible for potential lenders. First, that a consistent record of savings will enhance the chances of a housing cooperative obtaining a loan, and secondly, the higher the amount of self-finance in relation to the amount of the requested loan, the better will be the chances for a positive response to a loan application.

h) Other Financing

A number of other potential sources of long-term finance can be identified and should be explored further:

- i) insurance companies have traditionally invested in housing but usually in higher-cost dwelling units. Some estimates suggest at present, 30% of their assets are invested in this way;
- ii) pension and provident funds have substantial capital contributed for the benefit of workers mostly of the higher and medium income groups. These funds now have to be invested in Kenya, whereas previously they were placed abroad. These funds should be exploited in a similar way to those of the NSSF.
- iii) commercial banks which traditionally do not invest in longer form mortgage instruments, often serve the important function of providing "bridging finance" during the period of construction. However, now that both the Kenya Commercial Bank and the Cooperative Bank have mortgage finance outlets other banks might be encouraged to follow this safe and profitable route.
- iv) the Post Office Savings Bank in Kenya has never invested in housing, but it would be within the government's power to decide to place surplus balances with institutions which do. Such a move would certainly be in line with the policy of seeking to benefit the savers of such institutions.
- v) financial institutions often provide housing loans for their employees. Other employers are known to do the same. Tax incentives can be introduced for more employers to do this and thereby bring about a move away from "employers' housing" to "workers' housing."

#### 4. Land and Technical Issues

##### a) Land

After long-term financing, land is probably the next most important issue in the organisation and development of a housing cooperative. The inability to acquire or secure land for housing development has been a major stumbling block for many of the existing housing cooperatives described above in Section C of this report. The steady supply of land suitable for housing development will be crucial to the cooperative housing programme to be sponsored by the NCHA.

Since the price of land near to urban centres for freehold purchase is prohibitively expensive, the NCHA programme should focus on land made available by the government for municipal development on long-term leasehold arrangements. Since the proposed NCHA cooperative housing programme has national implications, such a focus would help to ensure that this programme is harmonious with the urban and shelter development policies of the government.

Serviced land is said to be in short supply although the large urban development programme planned for Kenya's major cities to be financed by the World Bank should eventually ensure an adequate supply of such land for the proposed cooperative housing programme over the short term, as long as housing cooperatives are allocated portions of the projects to be undertaken.

A faster consolidation and a reduced rate of illegal transfers are the two main arguments for allocation of sites to housing cooperatives. Apart from this World Bank programme, land currently owned by the government which will be passed on to the municipalities and town councils for development should be sufficient to serve housing cooperatives over the short and medium term, although the supply is dwindling.

The Physical Planning Department of the Ministry of Lands and Settlement indicated that the government's programme for land acquisition for urban development may have to be modified in the future so as to pass on more of the costs of land acquired because land around the cities and towns is becoming extremely expensive. The current policy allows for the lease of such land at nominal ground rents which amounts to the provision of land at subsidised rates. In view of the above, ground rents on new leasehold land may rise substantially in the future. In this case such land costs will be taken into account by the NCHA in the development of cooperative housing projects.

Where serviced land is not available for cooperative development, unserviced land should be secured and the costs of infrastructure included in the total cost of the project.

Recommendations: The team recommends that the Ministry of Lands and Settlement set aside on a regular basis adequate lands specifically earmarked for cooperative housing development and

that this process be coordinated with the municipalities, COTU and the NCHA to determine the land needs of cooperative housing for each year. The team also recommends that the local authorities be encouraged by the government to deal favourably with housing cooperatives seeking land.

Cooperatives should be allocated portions of large projects being developed by municipalities, such as those being financed by the World Bank and other donors. Further, in order to ensure adequate consideration of housing cooperatives, it is imperative that they be included by the Ministry of Lands and Settlement in the National Development Plan now being drafted.

b) Design Standards and Building By-laws

Current standards and by-laws governing the design and construction of housing and the services to be provided with it tend to be detrimental to the provision of housing for low-income groups, since a house built according to such standards is beyond the financial capacity of a great percentage of the population.

A general review and revision of building by-laws for the country is supposed to be undertaken in the near future under the auspices of the Ministry of Housing and Social Services. The team supports such a revision and suggests that it incorporate a general reduction of standards to allow, among other things, gradual development starting with single-room units and to allow construction in so-called semi-permanent materials and by methods which will ensure that the housing needs of low-income workers can be better served.

"In the past such a suggestion has sometimes been interpreted as calling for a lowering of standards. This is false. There is at present a system of dual standards-very high for the formal sector and none for the informal. Establishing and implementing relevant standards would result in raising standards for the overwhelming majority of Kenyans, thus raising the average of all. It is the present concentration of resources on excessively high standards of housing, health, and products which prevents standards from being raised for the majority of the population. The construction of council housing in Nairobi at a cost of several thousands of pounds per unit for a few hundred families, while thousands live in the shanty towns, is not conducive to maintaining high standards."<sup>4</sup>

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4. Employment Income and Equality - a strategy for increasing productive employment in Kenya. (I.L.O. Geneva 1972)

c) Cost and Availability of Building Materials

In preparing any large scale housing programme, the cost and availability of building materials must be considered, including possible cost increases due to shortages of certain materials or difficulties in transportation and delivery.

In this connection, the team supports the efforts of the Ministry of Housing and Social Services and the HRDU in the study of projected national housing demand and its effect on building materials production and supply as well as research into the use of traditional and other locally available building materials.

Bottlenecks have often occurred in delivery of building materials such as cement and roofing sheets. Cooperatives, by buying in bulk, should be able to overcome this problem better than individual builders.

d) House Cost Versus Target Group Income

The guiding principle in planning a housing programme, particularly the proposed cooperative housing programme for low-income workers, must be the design of the housing and accompanying services around the financial capacity of the target group. The cost of such housing and services must not exceed the capacity to repay of the intended beneficiaries, otherwise it must be allocated to a higher income group or the housing must be subsidised thus reducing scarce resources available for housing and reducing the total number of people served. Moreover, subsidised housing tends to end up in the wrong hands, because of the temptation to sell or sub-let is beyond the resistance of poor people.

Care must therefore be exercised to take the income of the target group as the starting point in the planning process rather than a particular standard of services or house design.

e) Other Issues

Further, a number of mechanisms can be used to accommodate very low income earners in an acceptable and realistic manner.

First of all, sub-letting is already a recognized fact and a valuable means to increase income for the poor. The design of structures and membership of a housing cooperative should therefore take this into account, and permit members to lease out one or several rooms in their unit.

Secondly, construction costs can be kept under control by insisting on fixed price tendering and by specifying a certain amount of self-help in a gradual development (foundation trenches and interior finishing are the activities most amenable to self help).

Thirdly, housing costs are for most families including members of a housing cooperative seen primarily as the monthly payment they make over the period of the long term loan. Therefore, the adjustment of these payments to income level over time becomes a crucial feature of reaching the target group.

#### 5. Role of Trade Unions

Trade unions have taken a specific interest in the housing problems of low income workers and they can in the future make important contributions in this area. COTU and the national unions should support the development of housing cooperatives in much the same way they support other cooperative activities among their membership, particularly the savings and credit cooperatives. This supporting role means that COTU and the unions would not get directly involved in the production or provision of housing for workers. Neither should they attempt to run or control housing cooperatives for union members.

Rather, COTU and the national unions should use their considerable influence to induce the government and employers to provide the resources and take the action necessary for a cooperative housing programme. At the operational level they can provide assistance in the promotion and educational aspects of housing cooperatives organized in the workplace.

Specifically, the following contributions could be made:

##### a) Role of COTU

- i. to influence policies of Government and its agencies (such as the NSSF), and private bodies in ways which would promote housing for lower income workers;
- ii. to represent the interest of workers in the NCHA;
- iii. to inform and educate affiliates on various aspects of the housing situation in Kenya and the possibilities of providing housing through cooperatives;
- iv. to include within the Cooperative Section of COTU the capacity to assist affiliates with their housing programmes;
- v. to provide modest resources which would be required to establish and support the NCHA.

b) Role of National Unions

- i. to include additional housing for workers in the negotiation of collective agreements with employers;
- ii. to assist and support housing cooperatives (in such areas as securing land and arranging for check-off) which may be formed among their members.

6. Role of Employers

The Employment Act requires employers to provide housing for their workforce or to pay a housing allowance. Many do neither. At any rate, housing allowances do nothing to provide additional housing. Rather employers should either provide housing directly for their workers or contribute to housing schemes for workers. Some employers have indicated an interest in providing housing for their workers if they could get land or financing to do so. The team feels, however, that it would be preferable for both workers and employers alike if the housing provided is owned and controlled by the workers themselves. Housing cooperatives can provide this ownership and control while serving as a mechanism for employer contributions to housing for their workforce. However, as with COTU and the national unions, the role of the employer should not involve direct participation in or control of housing cooperatives but rather financial and administrative support to such cooperatives organised in their workplaces.

Recommendation: Specifically, the team recommends that employers contribute to housing for workers in the following ways:

- administrative support to housing cooperatives organised among the workers through the provision of salary check-off services for the contribution of shares and repayment of loans;
- financial support to workers' housing cooperatives through short-term loans to the cooperatives;
- guaranty of loans to housing cooperatives from financial institutions;
- deposits with the Cooperative Bank and other financial institutions earmarked (if possible) for cooperative housing for their workers;
- and further, that consideration be given to enacting an employer tax for worker housing.

E. Interim Action Plan (12 months)

1. The Task Force

To obtain the maximum amount of feedback from the concerned government agencies and private groups the FCH study team requested COTU to convene a two day meeting at the Milimani Hotel on June 9 and 10, 1978. Most of the agencies concerned were represented (see appendix No. 2 for complete list) and the team's preliminary recommendations were presented. The participants broke up into 3 working groups to discuss different portions of the recommendations, and then reconvened in a plenary session to obtain ideas from the entire assembly on suggestions and proposals of the working groups. The plenary session was also an attempt to reach a consensus on what immediate follow-up action should take place in order not to lose the momentum achieved during the past months.

Two significant suggestions were made by the group and actively endorsed by the study team. The first is as follows:

Recommendation: That an action Task Force be immediately established composed of representatives from the Ministries of Cooperative Development, Housing and Social Services, Finance and Planning, COTU, KNFC, and HRDU. The mandate of this ad hoc interim committee is solely to make the necessary arrangements, in collaboration with the Minister for Cooperative Development, for the creation of a cabinet level Joint-Preparatory Committee on Cooperative Housing to be proposed and designated by the Minister to the Cabinet. The Task Force should complete its work within 4 to 6 weeks, and the Joint Committee should be operable by 1 September 1978.

The team recommends that the Task Force be comprised of representatives from the agencies at the working level so as to minimise the need for a back-stopping secretariat. If one is needed the Ministry of Cooperative Development, COTU, and HRDU should perform that function by seconding personnel.

2. The Joint Preparatory Committee on Cooperative Housing

The second major recommendation which grew out of the 9th and 10th of June meetings was the following:

Recommendation: That a Joint Preparatory Committee on Cooperative Housing be established at the cabinet level, composed of high level representatives from the same groups that formed the Task Force. Its purpose will be to prepare the necessary Cabinet Paper and draft the Act of Parliament for the establishment of the NCHA. The Minister for Cooperative Development would sponsor the Act with support from the Ministries of Housing and Social

Services, Finance and Planning, Lands and Settlement, and Labour.

The functions of the Joint Committee would be to use the FCH Report as a point of departure to more precisely prepare a Cabinet Paper and draft legislation on the proposed NCHA. To achieve these ends the Joint Committee would have the following terms of reference:

- i) preparation of a definitive organisational structure, including the anticipated relationships and roles of the designated board members and their organisations;
- ii) estimate of costs for the operation of the NCHA for the first 5 years, and arrange for a budgetary allotment to the NCHA for the first year;
- iii) define target groups;
- iv) identify and establish reasonably firm sources of financing for the housing projects to be sponsored by the NCHA, especially arrangements between the NSSF and the Cooperative Bank for financing housing cooperatives;
- v) select a core staff for the first year of operation;
- vi) define and initiate requests for the required technical assistance inputs;
- vii) develop a definitive work plan for the first year of operation;
- viii) review existing cooperative housing by-laws to ensure they conform to the new program.

The FCH team suggests that the Joint Committee also be empowered to coopt and invite other interested organisations into the deliberations of the Committee. The team also proposes a time-frame of 6 months for the Joint Committee to complete its functions.

Secretariat: To carry out the functions of the Joint Committee as outlined above, a small working secretariat of two professionals and one secretary will be required. The human and modest financial resources needed could be provided by secondment or contributions from the Ministries of Cooperative Development, Housing and Social Services, COTU, and HRDU. At the Milimani meeting representatives from those groups expressed support for this approach.

### 3. Interim Technical Assistance to Joint Committee

The team suggests that short term expert technical assistance of approximately 2 to 3 months would be highly desirable for the Joint

Committee. This should involve a technician with knowledge and experience in setting up cooperative housing institutions.

FCH could provide this interim assistance if the expenses could be covered through a suitable donor agency such as USAID, UNHHSF, UNDP or perhaps AALC, or a combination of these.

#### 4. Identification of External Financing

##### a) Long-term Technical Assistance

The technical assistance requirements in starting up the NCHA were outlined in Part D (2) (g) of this report.

The team has informally broached the subject of donor technical assistance with both USAID and UNHHSF. One mechanism which has proven most expeditious and effective in other parts of Africa has been the AID Operational Program Grant. By this route AID can make grants to approved voluntary agencies for projects which are considered within AID's priorities. FCH is presently carrying on technical assistance programs through this vehicle in 5 countries, including Botswana and Lesotho.

The World Bank and the UNDP are still other options.

Under the best of circumstances arrangements for an appropriate technical assistance team will take 4 to 6 months, and therefore the Joint Committee should have this task as one of its priority functions.

##### b) External Capital Assistance

The two main donors for housing and urban development in Kenya are the World Bank and USAID. Other potential sources include the African Development Bank, which is just now considering entering this field, the European Development Fund, the Canadian International Development Agency (CIDA), the Arab funds and the Swedish International Development Agency (SIDA).

The Joint Committee should initiate discussions with the Ministries of Finance and Planning and Housing and Social Services to identify an appropriate lender agency for cooperative programs to complement funds available from local institutions.

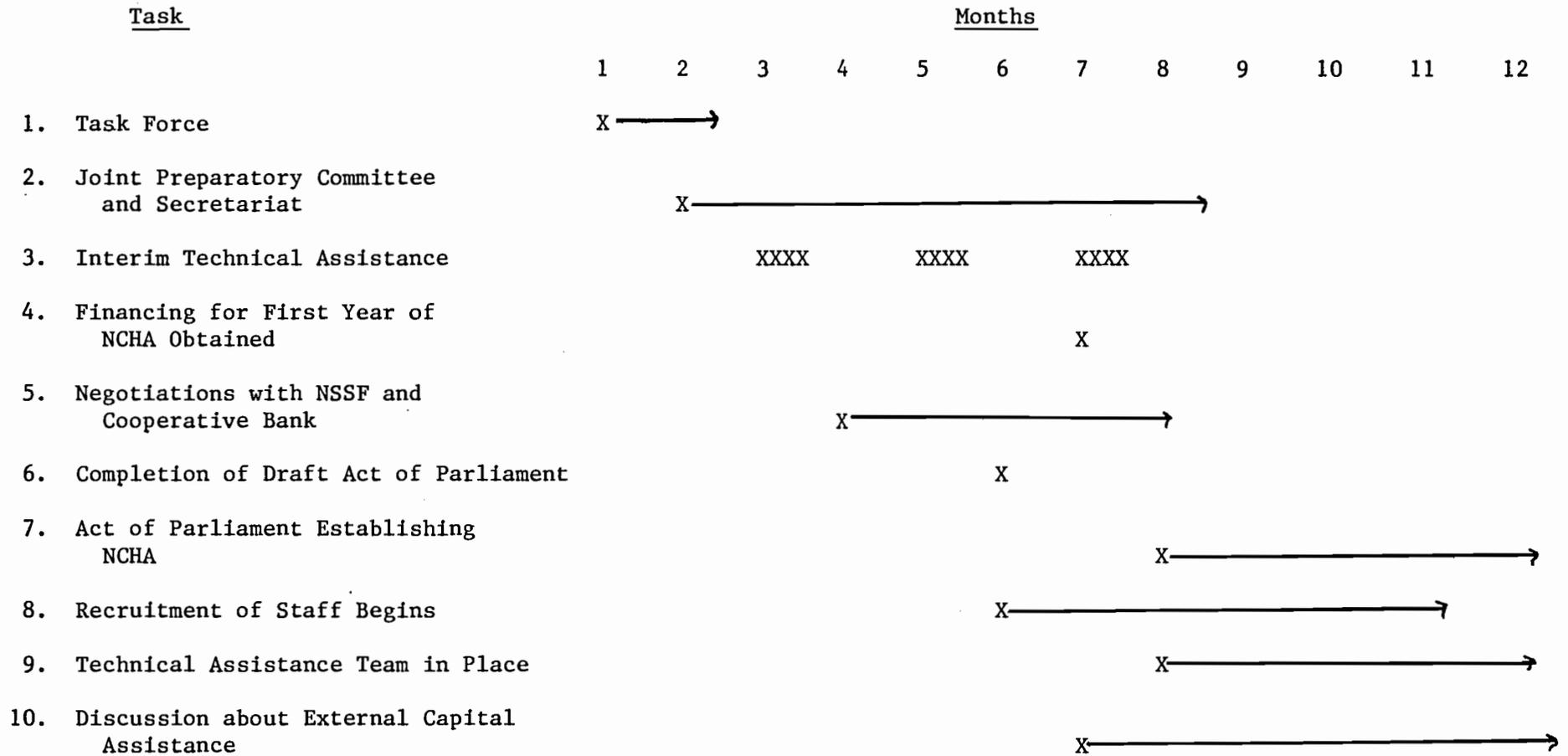
As stated earlier in this report, there is the prospect of the allocation of 700 sites in the second Nairobi urban project to the cooperative sector. If it is possible to meet the organisational work plan as scheduled, the NCHA should be able to contribute to the implementation of that portion of the program.

5. The New Development Plan (1979-1983)

It is vital that the new plan takes a strong stand in support of cooperative housing, and particularly the establishment of the NCHA. This would include estimates of the required budgetary support of the NCHA for roughly 5 years until it becomes self-sustaining.

It should also include estimates of the overall capital requirements for cooperative housing over the plan period.

WORK PLAN



LIST OF CONTACTS

H. F. Mtula, Permanent Secretary, Ministry of Cooperative Development

J. I. Othieno, Permanent Secretary, Ministry of Finance and Planning

J. B. O. Omondi, Deputy Secretary, Ministry of Finance and Planning

J. K. Muthama, Commissioner for Cooperative Development

A. Ligale, Director, Department of Physical Planning, Ministry of  
Lands and Settlement

J. Karebe, Deputy Secretary General, Central Organisation of  
Trade Unions

Paul Mbinda, Secretary General, Transport and Allied Workers Union

Kimani wa Nyoike, Secretary General, Union of Kenya Civil Servants

J. Karoga, Housing Officer, Union of Kenya Civil Servants

A. A. Adongo, Secretary General, Kenya National Union of Teachers

L. Musiga, Director, National Social Security Fund

Charles Mboya, Secretary General, Kenya Engineering Workers Union

Ali Mohamed, Deputy General Secretary, Post and Telecommunications  
Workers Union

J. K. Kimbui, General Manager, Cooperative Bank of Kenya

Pekka Hussi, Nordic Advisor, Cooperative Bank of Kenya

J. Laakkonen, Nordic Advisor, Cooperative Bank of Kenya

Hon. Juma Boy, M.P., Secretary General, Central Organisation of Trade  
Unions

M. Waraka, Area Secretary, Central Organisation of Trade Unions, Coast  
Province

R. Zuma, Deputy Secretary General, Dock Workers Union, Mombasa

J. Nyamai, Manager, Dock Workers Savings and Credit Cooperative  
Society, Mombasa

- B. E. Quainoo, Executive Secretary, Africa Cooperative Savings and Credit Association
- W. Makumbi, Chief, Central Finance Division, Africa Cooperative Savings and Credit Association
- R. Fitchett, Consultant, Africa Cooperative Savings and Credit Association
- D. Willett, CUNA/AID, Africa Cooperative Savings and Credit Association
- J. J. Musundi, Secretary General, Kenya National Federation of Cooperatives
- G. J. Njau, Chief Planning Officer, City Council of Nairobi
- S. G. Ayany, General Manager, National Housing Corporation
- G. Maina, Senior Programming Officer, National Housing Corporation
- P. Bhoyyo, Senior Assistant Programming Officer, National Housing Corporation
- F. E. A. Nderitu, General Manager, National Construction Corporation
- R. Kombo, Chief Executive Officer, Federation of Kenya Employers
- B. M. Munyeki, Deputy Director, Social Services and Housing, Mombasa Municipal Council
- J. Oyugi, Estate Supervisor, Mombasa Municipal Council
- Justus Mulei, Assistant Secretary General, Central Organisation of Trade Unions
- Dan Nyanjom, Regional Director, International Cooperative Alliance
- R. T. Gacheche, General Manager, Housing Finance Company of Kenya
- Charles Gikonyo, Small Business Administrator, National Christian Council of Kenya
- B. S. Rihal, Chief Technical Officer, Ministry of Housing and Social Services
- J. F. Schields, Senior State Counsel, Attorney General's Chambers
- A. Miriti, Assistant Commissioner for Cooperative Development (Planning Division)
- G. Verbeek, Advisor, Ministry of Housing and Social Services
- J. K. Gichuru, Cooperative Officer, Department of Cooperative Development

LIST OF PARTICIPANTS

MEETING ON COOPERATIVE HOUSING  
MILIMANI HOTEL, NAIROBI  
9th and 10th JUNE 1978

W. D. Ogutu	- Central Organisation of Trade Unions
Justus Mulei	- Central Organisation of Trade Unions
D. O'Laughlin	- African-American Labor Center
Jeremy Hagger	- Housing Research and Development Unit
Tara Chana	- Housing Research and Development Unit
Mwangi Macharia	- Ministry of Housing and Social Services
Gerard Verbeek	- Ministry of Housing and Social Services
Gilbert Njau	- City Council of Nairobi
P. J. Odhiambo	- National Cooperative Officer, COTU(K)
J. J. Mugalla	- Kenya Union of Commercial, Food and Allied Workers
F. M. Mwhia	- Ministry of Labour
J. O. Kimonge	- Department of Cooperative Development
M. E. Agalochieng	- National Construction Corporation
J. K. Waweru	- Kenya National Federation of Cooperatives
J. J. Musundi	- Kenya National Federation of Cooperatives
J. Laakkonen	- Cooperative Bank
A. H. Ogada	- Ministry of Cooperative Development
Mwinzi Munuve	- Department of Cooperative Development
J. K. Gichuru	- Department of Cooperative Development
R. Fitchett	- Africa Cooperative Savings and Credit Association
R. Kombo	- Federation of Kenya Employers
D. J. Nyanjom	- International Cooperative Alliance, Regional Office, Moshi, Tanzania
Jack Edmondson	- Foundation for Cooperative Housing, International
Henry Boldrick	- Foundation for Cooperative Housing, International

Appendix 3

LIST OF COOPERATIVE HOUSING SOCIETIES

<u>District</u>	<u>Name of Society</u>	<u>Status</u>
Embu	Embu Teachers' Housing	Active
Kisumu	Kidiruban	Active
	Kumute	Active
Meru	Tigania Housing	Active
Mombasa	Jubilee Building	Active
Nairobi	Platinum Housing	Active
	Nairobi Muslim Housing	Active
	Ismailia High Ridge	Active
	Ismailia Parklands	Active
	Mathare Housing	Active
	Gikomba Building	Active
	Kariobangi Housing and Settlement	Dormant
	Kenya Housing	Active
	African Housing	Under Enquiry
	Kandora Kuga Na Gwika Housing	Active
	Huruma Estate	Active
	Ndigichu Housing	Active
	Sukuma-Wiki Housing	Active
	Urban Housing	Active
	Kandora Housing	Active
	Kangemi	Active
	Embakasi	Active
	Gikomora	Active
Eastern Housing	Active	
Musanda Minu	Active	
Sunrise	Active	
Mwana Mukia	Active	
Mwamba Wa Kisau	Active	
Nakuru	Nakuru Ismailia	Under Enquiry
	Gaa Housing	Active
Nyeri	The Nyeri Muslim	Active
Thika	Thika Housing Development Cooperative Society Ltd.	Active



