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SPECIFIC SUPPORT GRANT

No. PDC-0207-G-SS-1028-00

SUMMARY OF SECOND YEAR ACTIVITIES

March 15, 1983

THE COOPERATIVE HOUSING FOUNDATION

SPECIFIC SUPPORT GRANT

No. PDC-0207-G-SS-1028-00

SUMMARY OF SECOND YEAR ACTIVITIES

A. Introduction

The primary purpose of the Specific Support Grant (SSG) is to strengthen and broaden CHF's capability to provide technical assistance requested by local cooperative institutions in developing and implementing self-help shelter, employment generation and related community services programs. A secondary purpose is to develop and test cooperative housing organizational and institutional forms in the LDCs. A third, and not the least important, purpose is to encourage more private sector coop-to-coop contacts between US cooperatives and those in the developing world. The SSG enables CHF to initiate activities, assist cooperatives, TSOs and local institutions, and to create a stronger coop-to-coop network among cooperatives in the US and abroad.

B. Accomplishments During the Past Year

The results to date under the SSG are an increased outreach and sharing with cooperatives in Third World countries; implementation of long term strategies for cooperative development in those countries; bringing about policy shifts in low-income housing approaches towards the actual implementation of more affordable shelter; training in methods of low-cost cooperative and non-cooperative housing alike; the dissemination of information through publications; and the commencement of a program for the acquisition of development funds from private sources.

Most of these activities, including communications and networking with foreign cooperatives, have been facilitated with the recently installed computer system at CHF. The system contains an evaluation and monitoring model which will permit projects to undergo the "process" evaluation recommended under the grant. That model will eventually be applied to many of the projects for which CHF provides technical assistance. Also included are mailing list and talent bank capabilities, as well as financial, budget and accounting programs already in use.

During the third quarter of 1982 CHF restructured its Washington-based management operations on a regional basis to more efficiently handle the existing and potential development opportunities and programs. Three divisions were set up for Latin America and the Caribbean; Africa; and the Middle East and Asia.

The following reflect CHF achievements in reaching its goals, fulfilling the purposes, and in obtaining the results defined under the SSG grant agreement during the second year of the grant:

1. Carry Out Country Assessments

The restructuring of CHF has enabled us to carry out assessments in a more effective manner. These have taken place both in Washington -- based on its extensive information system -- and in-country. Through longstanding contacts with public and private organizations in LDCs, CHF has been able to collect considerable information on local housing cooperatives in its three regional areas.

Examples from each of the regional areas of country assessments are:

a) Ecuador:

In 1982, at the request of the National Cooperative Bank of Ecuador, CHF carried out a survey of cooperative housing in that country, including the possibility of providing increased financial support to the movement and through established credit unions.

b) Tanzania:

CHF arranged for a senior housing specialist from the second largest "mother" coop housing union in Norway to assess the coop housing program for the capital city, Dodoma.

c) Thailand:

An assessment mission took place in early 1983 to identify means by which CHF might assist in strengthening emerging coop housing efforts, namely, through the Bangkok Coop Housing Society, the Credit Union League of Thailand, and the AIT "Building Together" program.

2. Develop Case Studies

CHF has published several studies of successful coop housing activities in developing countries. A publication under the Concept and Methods Series entitled "Cooperatives Building Housing in Many Ways" meets the need of illuminating the variety of coop solutions used in the Latin context. A pamphlet in the Case Studies Series entitled "African Enterprise: New Business in the Mountain Kingdom of Lesotho" depicts and analyzes the evolution of a private sector production enterprise which produces building materials and furniture for low-income housing projects sponsored by a national TSO.

3. Encourage Policy Shifts

Much of CHF's work overseas is directed, ultimately, at encouraging policy shifts towards the private sector through demonstration of successful participatory shelter projects. In Latin America, meetings were held and a proposal made by CHF to the Accion Comunitaria de Peru to develop housing coops. In Africa, the policy of developing a national self sufficiency in building materials productions was successfully demonstrated in a profit making production center in Lesotho's capital, Maseru. In Botswana CHF continued its long standing technical assistance efforts to that country and had a major role in defining that country's national housing policy. In the Middle East/Asia, the continuing development of large-scale and essentially a cost recoverable industrial housing program in Egypt is an example of a policy shift for the Government of Egypt.

4. Increase the Capacity of Local Housing Coops

A major new activity during the second year of the grant has been the development of a program in Belize to use an alliance of credit unions to provide home improvement loans on a nationwide basis with resources from the AID/HIG program. For Africa, CHF presented a major proposal to develop a coop housing sponsoring organization in Tanzania to provide shelter for lower income residents of squatter inhabitants in that country's new capital city.

5. Mobilize Financial Resources

CHF has made an effort to bring together financial resources for shelter-related programs in selected countries. In Latin America (including the Caribbean), CHF had earlier facilitated the funding from the United Nations Capital Development Fund for use in cooperative shelter development in Haiti's capital city, Port-au-Prince. In East Africa, under UN Habitat and UNCDF funding, a large-scale cooperatively-based squatter upgrading and sites and services project is being launched in Dodoma, Tanzania. In carrying out the grant CHF has consulted closely with the AID Office of Housing and Urban Development in targeting priority countries and opportunities, and to the maximum extent possible will employ housing guaranty resources in the development of programs, as well as working in concert with the Regional Housing Offices.

6. Program Identification and Development

CHF has been involved under the SSG in a variety of missions to identify and develop cooperative shelter projects. Some of these include a study in Jamaica of the feasibility of an home improvement program for credit union members in cooperation with the Credit Union Federation and a cooperative housing TSO called Mutual Housing Services. In Africa, CHF visited the Cameroons to assess the possibility of directing that country's major credit institution (Credit Foncier du Cameroun) and housing agency (Societe Immobiliere du Cameroun) to consider instituting a cooperative housing program. In the Middle East/Asia a trip was made to Thailand to carry out a project identification mission in conjunction with the Bangkok Cooperative Housing Society, the Asia Institute of Technology, and Credit Union League of Thailand. Additional missions for identifying projects were made to Ecuador, Honduras, Guatemala, Peru, and Tanzania.

7. Workshops, Seminars, and Training

The SSG has been instrumental in supporting CHF in its on-going training and communications programs. An example of one such activity under these programs for Latin America is a recent training seminar in the Dominican Republic on integrated low cost and cooperative housing. A similar event, for Africa, took place in Tanzania, where CHF participated in a seminar on the adaptability of cooperative techniques for low cost shelter projects. For the Middle East/Asia, CHF made a presentation on the cost effectiveness of cooperative housing techniques as applied to Egypt, to a workshop (at MIT, Cambridge) on planning strategies for Islamic societies.

8. Worldwide Network of Housing Cooperatives

CHF has continued its efforts to build stronger linkages between US cooperative housing organizations (including the U.S. based National Association of Housing Cooperatives) and LDC cooperatives. Towards this end, the Foundation was represented on the ICA Housing Committee, and at the 1982 ICHDA meeting in Rome. On the regional level, for Latin America, CHF has worked closely over the past two years with a Nicaraguan private sector development foundation (FUNDE) in helping that institution contribute towards meeting its country's shelter needs. In Africa, CHF continues to pursue a potential joint effort with ADAUA (Association for Development of Traditional African Urbanization and Architecture), headquartered in Upper Volta, for the purpose of launching locally or regionally-based African cooperative housing projects. In the Middle East/Asia, CHF is assiduously attempting to create linkages with LDC cooperative institutions, especially in heretofore untapped Asia, towards the end of meeting those countries' increasing shelter needs.

An important part of the networking approach, in addition to the numerous face-to-face contacts in the U.S. and abroad, is the publication and dissemination of the CHF "Concept and Method Series". This series serves as a useful forum for exchange on key matters concerning cooperative development. Such publications as "Cooperatives Build Housing in Many Ways", "Legal Aspects of Cooperative Housing", and "Housing Cooperatives for Industrial Workers" have been widely disseminated, providing the basis for continuing dialogues on the cooperative approach. These publications are attached for reference.

9. Program for Informing US Cooperatives

CHF is striving to develop more effective ways to inform US housing cooperatives about the shelter problems and needs in developing countries. It is doing so through its computer-based information system, publications on overseas work and extensive contact with selective cooperatives around the US, including among others, organizations in California, Colorado, Florida, and Maryland. The Foundation also participated in the annual meeting of the National Association of Housing Cooperatives in Baltimore. It has also worked extensively with the Advisory Committee on Overseas Cooperative Development and the Cooperative Resources Committee in informing US cooperatives about the international technical assistance and development efforts.

Of note is the fact that CHF is presently beginning to promote the use by US housing cooperatives of cost effective, self help techniques devised for use in developing countries. This is an innovative approach which seems to be gaining more and more importance among certain elements of the US population.

10. Establish a Development Fund

CHF has established separate Cooperative Development and Special Projects Funds. Monies comprising these Funds have been made available to seven organizations for the purpose of promoting the cooperative approach to housing, either through specific project-level activities or for the production of promotional materials. While most of these grants have been made to US organizations, a plan is presently in effect to channel them to countries where CHF is presently involved in project work. This strategy is set forth in a report titled "A Plan To Link US Housing Organizations to Development and Shelter Programs in the Developing World", completed in early 1982.

D. Additional Second Year Activities

Three areas of recent activity not specifically mentioned under the original grant agreement are: 1) Collaboration with US corporations; 2) The Caribbean Basin Initiative; and 3) the possibility of establishing regional offices for the purpose of developing cooperative links and projects. Each of these is addressed briefly for the purpose of reporting progress.

1) Collaboration with US Corporations

For the first, CHF participated in a conference in New York directed at a dialogue between US Corporations and PCOs. On a more specific level, the Foundation worked with United Brands to assess the potential for cooperative worker housing in Honduras. In Haiti, such US companies as Sylvania Electrical Products, Stride Rite Corporations, and Rawlings have been approached for potential cooperation in an industrial and worker housing effort in Port-au-Prince, Haiti. Finally, an Oklahoman agribusiness company and CHF held discussion on a rural housing project in Tanzania. CHF also participated in the recent conference in Jamaica regarding PVO/Private sector collaboration.

2) Caribbean Basin Initiative

Concerning the CBI, CHF has made extensive efforts in Jamaica, the Dominican Republic, and Haiti towards strengthening or establishing local organizations which could promote, develop, and manage cooperative housing projects. These efforts are continuing.

3) Regional Office

CHF is exploring the concept of establishing a regional office for Africa, based in Nairobi, in order to provide more effective assistance and develop new initiatives in cooperative housing in that region.

E. Third Year Activities

During the third year of the grant CHF intends to continue to carry out the activities described in the CHF Proposal and the Grant Agreement. In addition, CHF will accelerate its efforts to collaborate with US corporations in joint projects in developing countries, identify activities which focus on job training and employment generation through the creation of construction materials production and distribution centers and place high priority on the identification and development of activities in the Caribbean Basin area.

CHF will examine the feasibility of establishing a regional office in Africa. As mentioned above, a regional office in Nairobi, Kenya, is being considered to engender links with existing African housing cooperatives, to strengthen existing and develop new cooperative housing technical services organizations and to help identify and promote new cooperative housing programs. Such a regional office might be able to coordinate the collaboration of other US cooperative development organizations working in the region.

F. Budget

CHF obtained this grant in March of 1981 on the basis of a soundly conceived program based upon incremental funding over a three year period. As can be seen from this brief program summary and in the last two semi-annual reports, CHF's increased capacity is just now being felt.

Program planning as well as staffing were based upon anticipated and programmed increases over the three year period. The second year funding of \$385,000 was totally consumed at the end of the year, illustrating how closely the resources were programmed. To carry out its original and revised work plan will require full funding of the grant at the \$487,000 level.

As we have mentioned in Section E of this summary, we have intended to accelerate our efforts in collaborating with US industries working in the LDCs to develop affordable worker housing programs. And special emphasis will be placed in the Caribbean countries during this third year of the grant coincident with AID's own priorities.

Two budgets are annexed to this Program Summary, one at the full level of funding (\$487,000) and one at a lesser amount (\$420,000).

Enclosures: Budget #1
Budget #2 (reduced)
"Legal Aspects of Cooperative Housing"
"Cooperatives Build Housing in Many Ways"
"Housing Cooperatives for Industrial Workers"
"African Enterprise: New Business in the Mountain Kingdom of Lesotho"



COOPERATIVE HOUSING FOUNDATION

Concepts and Methods Series

July 1982

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A NON-PROFIT ORGANIZATION DEDICATED TO BETTER HOUSING AND BETTER COMMUNITIES

Cooperatives Build Housing in Many Ways

Cooperatives have been involved in housing in many different ways throughout Latin America and the Caribbean. Conventional cooperative housing projects, such as Los Pocitos in Panama, and cooperative-sponsored home improvement and construction loans, such as those in Paraguay, Jamaica and Nicaragua, build on a structure which permits people to act together to meet their mutual needs. The housing programs described in this Fact Sheet show how various types of cooperative associations can help their members improve their living conditions.

In designing housing programs in developing countries, consideration should be given to both traditional cooperative housing programs and to the use of existing cooperative associations, including: agricultural credit and marketing cooperatives, electric cooperatives, and especially credit unions. These structures provide a solid organizational base, a potential market, and the necessary human resources that can build housing and community services in many different ways.

The Cooperative Housing Foundation (CHF) has given assistance both to traditional housing cooperatives, as well as to other types of cooperative organizations whose members want to improve their housing.

Panama

In 1966, credit union members in the rural community of Los Pocitos

initiated a demonstration project of cooperative housing, in collaboration with the Federation of Credit Unions of Panama (FEDPA). The credit union acted as a vital link between the Panamanian Housing Institute, which was responsible for the design and implementation



From large multi-family projects to small home improvement loans through credit unions, various types of cooperatives offer their members many avenues to improved housing.

of the program, and the credit union members who needed and wanted improved housing. The credit union, which announced and promoted the program, also assumed other important responsibilities. For example, it established and administered the loan pro-

gram, selected qualified members from those expressing interest in the program, provided a savings program to assist members in accumulating the required downpayment, and even coordinated the collection of local construction materials.

In this first small experimental project in the Province of Chiriqui, the U.S. Agency for International Development (AID) provided a grant of \$3,000. These funds, combined with the downpayment of the credit union members and the investment of their own labor, built eleven homes.

The Los Pocitos project showed that low income, rural families could improve their living conditions through a cooperative, self-help effort. This demonstration became the foundation of an expanded nationwide rural cooperative housing program, funded by an AID loan and a Panamanian Government contribution. The loan financed four urban and eighteen rural cooperatives. This same loan also sparked the establishment of the Panamanian Foundation for Cooperative Housing, a Technical Services Organization (TSO). TSOs are private sector organizations that sponsor, develop, and/or manage housing cooperatives.

All of the urban housing projects were built as traditional housing cooperatives, in which the land and the buildings are owned jointly by the residents. But housing projects and cooperatives come together in other ways as well, as seen in a subsequent effort in Panama.

In 1978, AID provided a grant to assist three Panamanian institutions, including FEDPA, in developing and improving cooperative delivery systems for low income families. These funds provided FEDPA the capital to institute a \$100,000 revolving fund for home improvement loans to qualified low income credit union members. Advisors prepared a program manual, and carried out training of main office staff and field agents. By the end of 1981, all of the revolving funds had been channelled to member credit unions for approved home improvement loans.

In this program, the credit union member is responsible for acquiring a plan and budget for the improvement; these are usually prepared by the local technician. The member submits a loan application

received a one-time fee of 1 to 2 percent of the loan amount for its costs in the program.

Jamaica

Since 1978, the Jamaica Co-operative Credit Union League has been developing a home improvement program for low income credit union members. The League receives funds for the program from the Jamaica Mortgage Bank, the borrower of an AID Housing Guaranty loan, which it then lends out to credit unions to relan to eligible members.

The League is responsible for designing the program, for informing the credit unions of the program, and for offering them assistance in implementing it. The credit unions promote the program with

years, depending upon the members' ability to repay the loan.

The home improvement program in Jamaica has helped over 4,000 low income urban and rural families make their living conditions more comfortable. These loans have financed new roofs, doors and windows, additional rooms to relieve overcrowding, bathrooms, water tanks, and other necessary improvements. Under this program, as of April 1982, the League has funneled two million dollars (in U.S. currency) to the credit unions.

Nicaragua

The Nicaraguan Development Foundation (FUNDE), a private, non-profit institution, provides technical and financial assistance to many types of cooperatives, including credit unions, and those involved in agricultural production and marketing, water supply, transportation, and housing. To be able to respond to requests from its cooperatives, FUNDE decided that it was necessary to offer assistance in housing as an additional service. Therefore, FUNDE added a Housing and Community Services Department with a grant received from the Private Agencies Collaborating Together, Inc. (PACT).

This department of FUNDE provides assistance for three types of housing programs: (1) cooperative housing projects, (2) construction of new houses on members' lots and (3) improvement of existing homes. In all of these programs, the participating cooperatives promote the program, coordinate any self-help effort and are responsible for the repayment of the loan by the cooperative member.

In its cooperative housing program, FUNDE assists the cooperative in determining the demand of its members for housing. Assuming that a sufficient number of cooperative members, as well as others in the community, need housing, FUNDE will develop a housing project. It also assumes responsibility for preparing a feasibility study, seeking financing, preparing the plans, supervising the construction, and providing other necessary assistance. The cooperative, in some cases, will sponsor the project for its members and be responsible for the loan. More



This \$300 unit, in the rural community of Los Pocitos, is part of the first of several innovative housing cooperatives, organized by credit union members in Panama.

to the credit union for review and approval. If the loan is approved, the credit union disburses the requested funds for the member to carry out the improvement. Construction may be through self-help labor, a contractor, or a combination of both. Members pay their local credit union, which in turn repays FEDPA.

In this particular program, FEDPA charged the credit union 0.75 percent per month for revolving funds, plus a one-time service fee equal to 0.75 percent of the loan amount. The credit cooperative loaned the money to its members at one percent per month, for 24 to 36 months, depending on the member's ability to repay, and re-

their members, review loan applications, make inspections to assure that the construction is being carried out properly, receive payments for the loans, and repay the League.

The funds from the Jamaica Mortgage Bank can finance up to 85 percent of the improvement loan, with the credit union providing at least 15 percent of the total loan. The League receives these funds at 11 percent and loans them to the credit union at the same interest rate. However, the League receives $\frac{3}{8}$ of one percent from the credit union for its responsibilities in the program. The credit union provides the loan to the members at 12 percent for a period of 2 to 10



Credicoop (Paraguay) is one of many types of cooperative organizations which offers home improvement loans to low income families, through its affiliated credit union members.

likely, however, a cooperative specifically for housing will be organized of those interested and qualified for the housing project, and this coop will be responsible for the loan.

If the demand in a cooperative is not sufficient to warrant a housing project, FUNDE will undertake a program for the construction of new houses on lots owned by individual cooperative members. In this program, the member must have title to the land and be responsible for preparing the plans and budget for the dwelling. The cooperative, after approving the creditworthiness of the member, submits the application to FUNDE for review and approval of the plans and budget. If FUNDE approves the technical and financial aspects of the construction, it disburses funds to the cooperative for the construction loan. FUNDE provides the member with supervision during the construction period.

In its program for the construction of cooperative housing projects, the terms and conditions depend on the source of funds. In its programs for the construction of individual houses and home improvement loans, FUNDE currently loans money to a cooperative at 8 percent per annum. The cooperative charges its members 10 percent per annum for the loan which is repaid over a 4 to 6 year period.

Paraguay

In Paraguay, cooperatives participated in a pilot housing program initiated by the Paraguayan Savings and Loan Bank (BNV), utilizing an AID Housing Guarantee loan.

The cooperatives, members of the National Central Cooperative (CREDICOOP), are located in several communities throughout Paraguay and are composed primarily of middle and lower income families. CREDICOOP is an affiliation of credit unions, agricultural cooperatives, and agro-industrial cooperatives.

In the pilot program, the BNV, through the cooperatives, provided loans for home improvements and construction of new shelters on individual member-owned lots.

The BNV, in consultation with CREDICOOP and with assistance from CHF, designed the operational mechanism, defined financial criteria, and prepared the corresponding contract forms and documents for program implementation.

The procedure, in brief, is as follows:

1. After the participating credit unions have been selected by the BNV and CREDICOOP, and received general orientation, they promote the shelter credit program among their memberships;

2. Based on the demand among their eligible members, the cooperatives enter into operational agreements and establish corresponding lines of credit with the BNV;
 3. With training received from the BNV, the cooperatives review individual loans. After loan approval by BNV (normally in groups of loans), the cooperatives release funds on a project basis;
 4. Although some of the cooperatives are able to offer limited technical assistance, loan recipients are directly responsible for designing and constructing their projects, either by self-help or through a contractor. The cooperatives periodically inspect each project to assure compliance with the terms of the loan agreements.
 5. Except for the loan origination and management fees retained by the cooperative, the loan payments received by each cooperative are passed on to the BNV. Depending on the amount and term, the loans are either secured by a mortgage or by a personal guarantee. The cooperatives, in turn, provide their institutional guarantees to the BNV.
- In addition to the obvious shelter benefits received by the individual loan recipients, the participating cooperatives experienced a signif-



In Paraguay, credit unions alerted their members to the opportunities for home improvement through a new loan program.

icant increase in membership because of the new service they were able to provide. New members bring with them new capital; the new loan mechanism automatically increases the available capital of each cooperative through the use of external funds; and the cooperative receives the benefit of its service commission. Furthermore, as a result of this program, the cooperative resources previously dedicated to small, short-term shelter loans are now freed for application to other member needs, such as education and health.

Credit Cooperatives Develop Housing Programs

In order for cooperative organizations, and especially credit unions, to develop housing programs, several elements must be present, in addition to the need among some members for improved housing.

In the case of credit unions, there should be strong management at both the national and local levels. Furthermore, a special savings program should be instituted for the members, to help them save toward their downpayments, and assistance should be available in the technical aspects of the housing program if needed.

Such strong management, savings programs and technical assistance can help credit unions add housing programs like those in Paraguay and Jamaica, to their regular loan activities, which gen-

erally include some housing related loans.

Favorable legislation can also facilitate the development of housing programs by cooperatives, and in particular by credit unions. In the United States, for example, some larger credit unions are able to offer housing aid to their members. As the result of credit union action, the U.S. Congress passed legislation in 1977 that granted federal credit unions the authority to make home mortgage loans to their members for terms up to thirty years. Some state legislatures have also afforded their state-chartered credit unions this same opportunity.

Another key institutional aspect of financing cooperative housing projects, is the ability to sell loans on the secondary mortgage market, where one exists. The placing of these loans on the secondary market enables the credit union to serve more families with long term loans.

Additional Information and Assistance

The Cooperative Housing Foundation has been working overseas since 1961 to assist public and private sector housing institutions in developing programs designed to improve the living conditions of low income families. CHF has also collaborated with organizations in some developing countries that are helping to improve living conditions through cooperative action.

In many cases, the Foundation has also been responsible for establishing and advising national federations of cooperatives that provide the technical services to develop both cooperatives and cooperative-sponsored housing programs. For further information, or for technical assistance, CONTACT:

Cooperative Housing
Foundation

2501 M Street, N.W., Suite 450
Washington, D.C. 20037

Telephone: (202) 887-0700

Telex: 440271

Technical Services available from the Foundation include:

1. Determination of project or program feasibility;
2. Assistance in establishing housing programs;
3. Direct services in the cooperative development process;
4. Technical assistance in development or expansion of local Technical Services Organizations; and
5. Training of staff, community leaders, and coop members.

Other recent CHF publications include: "CHF Assists Honduran Organizations To Develop Low Cost Housing Cooperatives", "Rehabilitation of St. Martin Quarter (Port-au-Prince, Haiti)", "Legal Aspects of Cooperative Housing", and "Mansions in the Sky", a 36-page booklet on self-help housing in Botswana. For copies of these publications, write CHF.

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COOPERATIVE HOUSING FOUNDATION

Concepts and Methods Series

August 1982

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A NON-PROFIT ORGANIZATION DEDICATED TO BETTER HOUSING AND BETTER COMMUNITIES

Housing Cooperatives for Industrial Workers

Who Will House the Workers?

The planners, developers and managers of industry have faced this question since the industrial age began, for industry must have an adequate, reliable labor force to survive. The problem is serious enough in the United States but even more so in the developing countries where new housing production has never caught up with long standing housing shortages.

Some industries have been obliged to forego operating economies or competitive advantages to locate where there have been workers—and housing for workers. Firms engaged in extractive or agricultural production have had no choice of location. They have had to create housing for workers near the mines, fields or forests.

Other industries may have the option of establishing their operations in a selected location and can take advantage of inexpensive land situated near highways or shipping points. However, they too have to take the availability of housing for their workers into consideration in selecting a location.

Whose Problem is This?

For the planners, developers and managers of industry there is a choice among three fundamental policies regarding housing for the workers.

One policy is to simply ignore the problem, saying in effect: "Let the workers find their own shelter." This is usually inadequate because industry needs a stable, organized

residential community to attract and hold responsible workers. As individuals, workers lack the resources to create such communities. The most likely result of this negative policy, particularly in developing countries, is a growth of over-crowded, unsanitary slums and squatter settlements.

A second policy choice is for the industry to undertake the construction and operation of housing that it would own for its labor force. This paternalistic policy has ancient roots. The feudal lord sheltered his serfs, while in industrial times, some companies built "company housing" and "company towns."

Generally, these have had an unhappy history.

Today's industrialists recognize that company-owned housing diverts management's attention and capital away from their own primary objectives. And workers, justly or not, view company housing as unwelcomed employer interference in their personal lives.

A third policy option is the one addressed in this publication: that industry lend its support and encouragement to institutions which would develop adequate, well-planned shelter for the workers through the medium of cooperative housing.



Through cooperatives, workers can take housing into their own hands. Together, industry and its workers can find a solution to the housing problem that affects them both.

The Cooperative Housing Foundation (CHF), 2501 M Street, Suite 450, Washington, D.C. 20037, is a non-profit corporation which sponsors cooperative and self-help housing and provides technical assistance to government, community, and private groups in the U.S. and abroad. Telephone (202) 837-0700. Telex 440271. Cable FCHINTL. This publication is made possible by a grant from the U.S. Agency for International Development.

What is Cooperative Housing?

A housing cooperative is a non-profit association that is owned and democratically controlled by its members. Legal responsibility rests with a Board of Directors, which is elected by the members.

Members have the right to use and occupy their house or apartment and can sell or pass that right to their heirs. Their rights are similar to those pertaining to ordinary home ownership. However, the legal title to the dwelling is held by the cooperative.

One type of cooperative ownership is through a "blanket mortgage" arrangement, which covers the land and all homes in the cooperative. To meet mortgage loan repayments, interest charges, and operating maintenance costs, the cooperative collects a monthly charge from each member. This is the member's share of the cost of developing, operating and maintaining the cooperative project.

The cooperative also handles the transfer of interests in housing units, and establishes rules governing property use. Physically, there are many variations in the types of structures in housing cooperatives. They may be large or small; they may have multi-family or single family units.

Is More Than Housing Needed?

Communities require many services: shops, schools, churches, health clinics, roads, trash and garbage collection, water supply, sewage treatment and disposal, and local police protection. Often municipal governments are not prepared to extend all essential services to new housing projects. Even when a developer builds such services into a project, maintenance can be a major problem for the municipality.

Larger housing cooperatives, or a group of housing cooperatives, can provide and maintain some of their own community services when these are not available locally. They can do so efficiently and economically and remove pressures for these services from both employers and the local governments.

Housing cooperatives meet their community service needs in various ways. They may contract for professional management, or operate facilities themselves with hired or volunteer labor. They may lease community-owned property to private businesses. Often they establish allied cooperative enterprises such as a credit union, a supermarket, or a small corner grocery store. Cooperatives may also provide land in their communities for churches and schools.

How is a Housing Cooperative Started?

To provide adequate housing in modern communities under a cooperative system requires many technical and professional skills. Generally, inexperienced amateurs, even though zealous and well-intentioned, cannot successfully plan, finance, build and operate housing projects unaided.

The need for an organization to act as a catalyst in cooperative housing development was recognized some time ago in the United States. This has led to the creation of private technical service organizations (TSOs), such as the Cooperative Housing Foundation itself. TSOs are also found in other countries that have cooperative housing programs. These same organizations usually are non-profit foundations or corporations dedicated to sponsoring and advising housing cooperatives. They may carry out market analyses to determine the need for projects, organize the cooperative associations, educate members in how to manage their cooperatives, develop the site and housing plans, supervise construction of the projects, and/or assist the cooperatives in the management of their projects.

Experience in Developing Countries

There are numerous examples of cooperative housing projects for industrial workers in developing countries. CHF has collaborated with local TSOs, and in many cases has created these entities, to develop cooperative housing, including projects for industrial workers.

In Honduras, in 1966, the Honduran Federation of Housing Cooperatives (FEHCOVIL) established a housing project for white collar and blue collar workers, including many from Standard Fruit Company. The Standard Fruit Company donated land for a housing project in La Ceiba, a small town located on the north coast of the country which serves as the primary center for Standard Fruit's local operations. Loan funds were provided by the U.S. Agency for International



This cooperative for workers of a brewery in Quetzaltenango, Guatemala, provides a healthy community. It stands in stark contrast to the slums and informal settlements that workers frequently have to resort to in order to be close to their work.

Development (AID), and technical assistance by CHF.

FEHCOVIL began this cooperative community, El Sauce Housing Cooperative, with 193 housing units. Two additional phases have been added, bringing the total to 393 units. Members were educated in the meaning and functioning of a housing cooperative, and a management system was established. One sign of the success of this community development effort is the subsequent organization of a consumer cooperative for its members.

In Guatemala, the National Housing Institute (also a local TSO) planned and developed a cooperative housing project for workers in the small industrial town of Escuintla. A consortium of seven local industrialists who recognized the need of their workers to obtain better living conditions, provided land for the project and arranged partial financing through a local savings and loan association. The Central American Bank for Economic Integration (CABEI) agreed to purchase

"What is a cooperative? It is a grouping of individuals pursuing common economic, social and educational aims by means of a business enterprise."

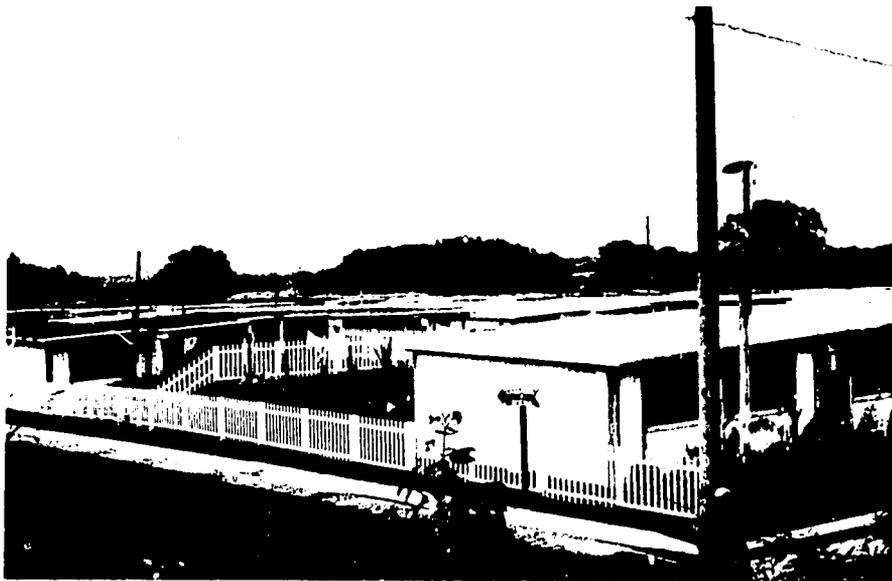
*—Charles Gide, 1847-1932
noted French economist
and cooperator*

80 percent of that loan from the savings and loan association.

This housing cooperative was planned for local industrial workers who either lived in rental housing, or were sharing the homes of relatives. Workers were required to participate in a savings program, in order to accumulate their 10 percent downpayment.

In addition to the housing development services, the National Housing Institute (INVI) also provided a major portion of the financing. Through the unfolding of this project, INVI built its capability to initiate and develop cooperative housing projects.

Named "El Modelo Housing Cooperative," this Guatemalan project provided cooperative owner-



With land provided by local industrialists, and technical services by INVI, El Modelo Housing Cooperative provides housing to 188 workers. A faultless payment record, a school, and other community facilities make this an outstanding model of cooperation between workers and industry.

ship to 188 workers. Its exemplary group responsibility, as seen in its faultless payment record, has served as a model for other subsequent INVI sponsored housing cooperatives. Subsequent to the construction of the houses, the Board of Directors approved a plan for the joint financing of a school, a community center and recreation facilities. The cooperative provided the land and some of the financing. INVI provided the plans and specifications and supervised the construction, and CARE assisted with the purchase of equipment for the school.

In addition to these projects in Honduras and Guatemala, CHF has provided training assistance in Jamaica and Indonesia, for an Alcoa workers housing coop and for local housing managers of Caltex Pacific Indonesia, respectively.

What Are the Benefits of Cooperative Housing?

For industry: One of the principal advantages of the cooperative approach is that a cooperative TSO or similar sponsoring organization, can relieve a company (or group of companies) from much or all of the responsibility for planning, arranging financing, building, and managing housing projects. At the same time, cooperatives can become an institutional channel for industry to

assist employees in meeting their housing needs, by helping to arrange mortgage financing, or by contributing land, without becoming directly responsible for the project itself. Furthermore, since cooperative projects are owned and managed by their members, administrative problems and social tensions associated with company towns do not exist. Properly organized cooperatives assure the establishment of financially sound projects that will be self supporting, relieving industries of the long-term financial responsibility among members for managing community affairs on their own, diminishing any dependency upon industries for assistance. In general, cooperative housing communities are well maintained, attracting and holding responsible workers.

For workers: Since the cooperative is a non-profit organization, a member's monthly expenses are smaller than would be required for housing of comparable quality. Moreover, instead of each cooperative member having to get individual mortgage financing, the cooperative's single mortgage usually can be obtained more easily, and often with reduced closing costs. Cooperatives offer many of the advantages of home ownership, including the building of equity. When a member wishes to leave the cooperative, his interest can be trans-

ferred easily to a new member without paying a broker's commission or legal fees. Cooperatives afford members a way to obtain a variety of community services, such as playgrounds, community centers, nursery schools, medical clinics, credit unions, and shopping facilities, which may be owned by the members and operated on a non-profit basis. In a housing cooperative, workers live in a community they own and control. They are independent of their employers for housing, and occupancy is not contingent on keeping this employment.

For domestic lending institutions: By virtue of a cooperative's single mortgage, the responsibility for meeting monthly payments is collective rather than individual. For this reason, cooperatives commonly establish a better repayment record than do other forms of housing. Cooperatives also set aside reserves for delinquencies and vacancies as well as for repair and

maintenance, which in turn protects the value of the lender's investment. An additional benefit to lenders is that a cooperative's single mortgage is more marketable than a number of individual mortgages, allowing greater flexibility for the lender in subsequent investment choices.

For officials in national and local governments: The cooperative housing concept is a private sector solution to housing needs that does not draw heavily upon the limited resources of government agencies. Working in partnership with local governments, cooperatives can complement the government's efforts to provide housing for needy families. Cooperatives can assist the planning departments of government agencies by identifying community needs. Many cooperatives succeed in providing some of their own community and social services, thus reducing the financial and administrative burdens of municipalities.

Additional Information and Assistance

For additional information about cooperative housing for industrial workers, or for technical services, contact:

Cooperative Housing Foundation
2501 M Street NW, Suite 450
Washington, D.C. 20037
Telephone: (202) 887-0700
Telex: 440271

Technical Services available from the Foundation include:

- 1) Determination of project or program feasibility;
- 2) Assistance in the housing development process;
- 3) Direct services in the cooperative development process;
- 4) Technical assistance in development or expansion of local technical service organizations; and
- 5) Training of staff, community leaders, and cooperative members.

Other publications available from CHF:

- "CHF Assists Honduran Organizations to Develop Low Cost Housing Cooperatives"
- "Rehabilitation of St. Martin Quarter (Port-au-Prince, Haiti)"
- "Legal Aspects of Cooperative Housing"
- "Cooperatives Build Housing in Many Ways", which explains how various types of cooperatives can provide housing for their members
- "Mansions in the Sky", a 36-page booklet on self-help housing in Botswana

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COOPERATIVE HOUSING FOUNDATION FACT SHEET

June 1982

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A NON-PROFIT ORGANIZATION DEDICATED TO BETTER HOUSING AND BETTER COMMUNITIES

Legal Aspects of Cooperative Housing

This paper is based on the experience of the Cooperative Housing Foundation in providing technical assistance for the promotion, organization and management of housing cooperatives in various countries, especially in Latin America. This account is intended for all those involved in development assistance programs, especially in housing, who are interested in the concept of cooperative housing, but who may lack information about the essential structure and legal requirements behind these organizations.

This information may be of interest also to those individuals qualified to give legal assistance to housing groups, but who may be unfamiliar with the special needs of cooperatives. It does not intend to be a treatise on the subject but rather provides an outline of the most common aspects of law as they relate to cooperative housing activity.

The purpose of this fact sheet is not to advocate a course of action but is to provide basic information about the legal provisions and regulations under which housing cooperatives are formed and operate. Also, the nature and purpose of a series of documents, contracts and agreements will be described, which housing cooperatives must deal with during the different stages of their existence.

Types of Cooperatives

Generally speaking, a housing cooperative is a legally incorporated cooperative organization, formed to provide the best housing

possible, and related community facilities, at the lowest possible cost to the members.

Depending on local customs, laws and socio-economic factors prevailing in different countries, housing cooperatives have taken many different forms.

Housing cooperatives can be grouped under the following classifications:

Limited objective cooperatives are organized to perform certain specific services for the members, such as acquiring and subdividing land with title to the lots given to each member individually. Sometimes the cooperative also arranges for the installation of streets and utilities and even the construction of dwellings. In the latter case, in some countries, these are called *building cooperatives*. Usually *limited objective* housing cooperatives are of a temporary nature; their goals are achieved when the construction is completed or when individuals take ownership.

Multiple-mortgage cooperatives are similar to a condominium of *horizontal property*, in which the members hold legal title to their individual apartments or dwelling units but where all common areas and facilities are owned cooperatively by the owners of the units. In some countries, these are called *Housing Services Cooperatives* when they conform to basic cooperative principles. These principles include: open membership, non-profit operation, safeguards against speculation, ownership limited to one dwelling per member, and demo-

cratic control of the project, with each member having only one vote. This type of housing cooperative is found in Israel and some Latin American countries.

Tenant Cooperatives build and own the project and lease the dwellings to the members. In this type, the member-occupants do not have equity in or own any share of the property but they do have a voice in the day-to-day management of the project. This type is found in France and some Eastern European countries.

Mutual Ownership cooperatives, also known as *single mortgage* cooperatives are those in which the cooperative retains title to the land, dwellings and facilities, in addition to providing the services of a *limited objective cooperative*. In this case the cooperative, which is owned by the members, manages and maintains the property on their behalf after the project has been completed. A *mutual ownership* cooperative may also be formed to acquire a public or private housing project, converting it into a cooperatively owned and managed community. The *mutual ownership* cooperative is most common in the United States and the Scandinavian countries, and has spread throughout Latin America and the Caribbean. In contrast with the *limited objective* type, the *mutual ownership* or *single mortgage* housing cooperative provides one of the most accessible ways of solving shelter related problems for the rural and urban poor. *Self-help* methods of construction are compatible

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with the purpose and structure of *mutual ownership* cooperatives, and may be used to lower costs.

Technical Services Organizations (TSOs)

In developing countries, housing cooperatives usually begin to deal with legal matters before they become legally chartered, during their formative or "pre-cooperative" stage. For organizers, the first step can be to seek assistance from the government agency that handles cooperative activities. Since most government housing offices do not have a section specializing in cooperative housing, the organizing group may seek assistance from a housing cooperative federation, a foundation, or a TSO, if one of these exists in the country. TSO is a generic term for a private sector organization that sponsors, develops and/or manages housing cooperatives.

In countries where TSOs or similar cooperative housing institutions do not exist, organizer groups can request assistance from international organizations such as CHF, or the International Cooperative Housing Development Association (ICHDA). These organizations specialize in providing tech-

nical assistance and training in all matters, from the organization of a cooperative to the completion and management of the project. During the last 15 years, CHF, through its subsidiary CHF International, formerly FCHI, has helped organize numerous housing cooperative societies and TSOs in several countries in Latin America, the Caribbean and Africa.

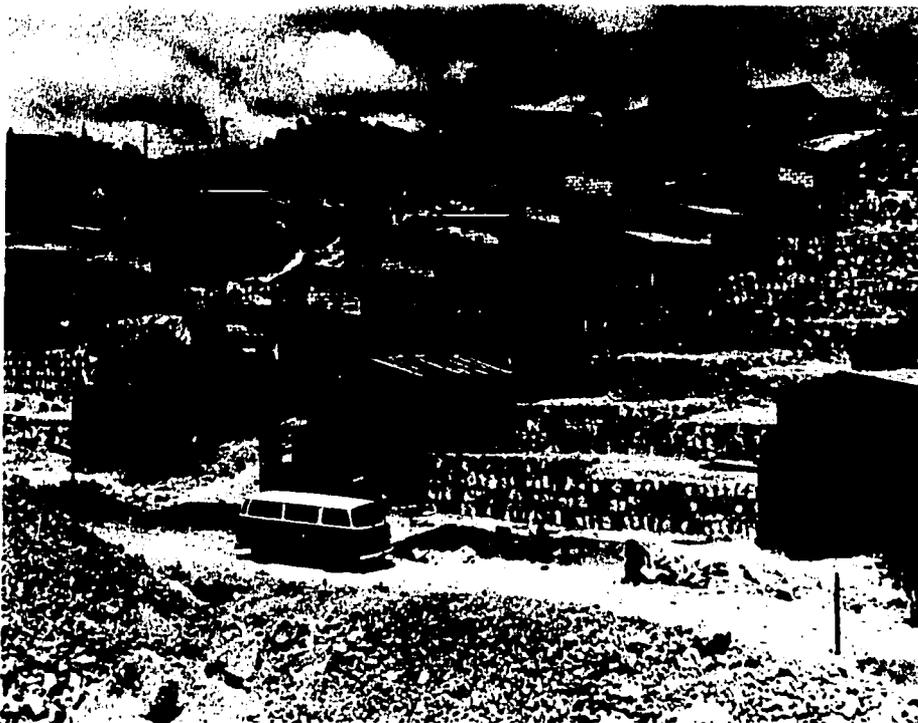
Government Legislation

Experience shows that housing cooperatives function more efficiently if the legal framework within which they operate is clearly defined. Therefore, special legislation which recognizes the distinctive characteristics of this type of organization is vital for protecting the cooperative structure and providing technical and financial support. Preferably, this is in the form of special cooperative housing laws and regulations, as is the case in Italy, in many states within the United States and in a number of other countries. At the very least, there can be special provisions of a *general cooperative law*. This type of legislation is used in Austria, Czechoslovakia, France, the Federal Republic of Germany, Great Britain, Poland, Sweden, Switzer-

land, in most countries of the British Commonwealth and the French Union and in most of the Latin American countries. In countries where no cooperative laws exist, such as Denmark and Norway, or where a general cooperative law is unsuitable for cooperative housing, such being the case in Finland, housing cooperatives are subject to the laws governing companies, which must be complemented with special rules designed to preserve the cooperative principles.

In order to encourage and support the development of a strong co-op housing movement, basic legislation dealing with housing cooperatives should provide for the following:

- Statement of the government's objective regarding housing in general and cooperative housing in particular;
- Proper classification of housing cooperatives, indicating their special characteristics;
- Definition of the contractual relations between the members and the cooperative, and indication of their mutual obligations;
- Indication of the extent and nature of government support to housing cooperatives;
- Provision of desirable incentives and concessions to housing cooperatives from the government and public authorities, such as exemption from taxes, duties and registration fees; also provision of regular financial assistance;
- Exemptions of housing cooperatives from the application of laws and ordinances which are likely to adversely affect their normal and sound operations;
- Provisions to facilitate the solution of disputes between members and the cooperative without resorting to the courts;
- Provision for the recovery of the cooperatives' dues by summary process, as well as for the timely eviction of a defaulting member;
- Establishment of a central agency to coordinate the activities in the cooperative housing field, to assume responsibility for encouraging the formation of housing cooperatives, and for providing them with technical and financial assistance.



Attention paid to the legal aspects of cooperative housing helps assure that the homes will be well constructed and that the project will function smoothly long after construction is completed. Shown above is a FEHCOVIL project in Honduras.



CHF also provides technical assistance and development services to cooperatives in the U.S. Shown above is the Three Fountains West Cooperative in Indianapolis, Indiana.

Cooperative Housing Documents

The following paragraphs describe a number of basic legal documents that are generally found in cooperative housing programs.

Articles of Incorporation

The *articles of incorporation* constitute the legal document that establishes the cooperative as a corporation subject to the legislation of the country or jurisdiction in which it is chartered. In most countries of Latin America, this document is called the Charter of Constitution. The *articles* contain a series of items including: the name and purpose of the cooperative (to provide housing to its members on a cooperative, non-profit basis); how many members will there be on the cooperative's board; and, the names and addresses of the organizers and members of the first board. Some jurisdictions require more information in the *articles*.

By-laws

Most jurisdictions require that a new cooperative register a body of rules. These are the *by-laws* or written rules governing the cooperative's operation. They should be comprehensive to ensure sound and efficient operation of the organization and be kept clear and simple so that they are readily understandable by all.

The most basic subjects the *by-laws* contain are the following:

- Name, location and purpose of the cooperative;
- Provisions relating to membership, members' rights and obligations:
 1. Applications and eligibility for membership, content of the membership certificate and replacement of lost certificates;
 2. Financial responsibilities of members, such as entrance fees, limitation on share ownership, obligations to make regular savings deposits, and the limits of members' liability in the event of loss or failure of the cooperative;
 3. Statement of the maximum interest payable on shares;
 4. Procedures for transfer of membership upon the death or resignation of a member; protection of the members' and members' family interest should a they become incapacitated; the cooperative's option to acquire a retiring member's share; the procedure to be followed when the cooperative decides not to purchase the share; the method to be used for determining "transfer value" of retiring members' shares in the event the cooperative exercises its option to purchase them and procedures for terminating membership and for limiting the sales price of membership or shares in the cooperative;
- Rules regarding the date and place of the cooperative's annual meeting and indication of when and how special meetings are to be called; procedure for notification of members, determining quorums, and adjournment of meeting when there is not a quorum; description of voting rights and detailed description of voting procedures, including methods of appointing proxies;
- Provisions dealing with the number of directors to serve on the board; their qualifications, powers and duties; their election at an annual meeting, term of office, how vacancies may be filled and directors removed; and methods for avoiding conflicts of interest when directors or their relatives or business partners or employees want to get involved in business with the cooperative;
- Provisions requiring periodic audits of the cooperative's accounts by an accountant with professional qualifications. (In some countries such professionals work independently and the cooperative is free to select the auditor it prefers and pays a fee for his services; in other countries, auditors are employed by the government department which supervises cooperatives; in others, audits are carried out by a union of cooperatives or sometimes by a cooperative bank);
- Provisions for settling disputes between members or between a member and the board (In order to save time and prevent both the cooperative's and members' resources from being wasted in court cases, a procedure should be established to appoint an arbitrator whose decisions will have the force of law; the arbitrator may be a government official concerned with cooperatives or a senior officer of a cooperative housing federation or TSO);
- Procedures to be followed by deciding on changes in the by-laws themselves or in the status of the cooperative, such as the merging of the cooperative with another housing cooperative, or division of the cooperative into two organizations, or its dissolution. Since these are serious changes, decisions regarding them should be made with full knowledge and participation of the membership.

Subscription Agreement

Housing cooperatives in some countries utilize a *subscription agreement* wherein applicants for membership demonstrate their willingness to join the cooperative and accept its by-laws and regulations. This document states that the subscriber, if approved, and upon meeting conditions of the *subscription agreement*, is entitled to occupy a unit under terms of the occupancy agreement and will make the required down payment and assume the monthly carrying charges for that unit. The subscriber may withdraw from prospective membership within a certain period after having signed the agreement, and the fee must be returned to the subscriber. In some countries, the *subscription agreement* is replaced by the application for membership which sets the conditions that an applicant must meet to qualify as a member.

Occupancy Agreement

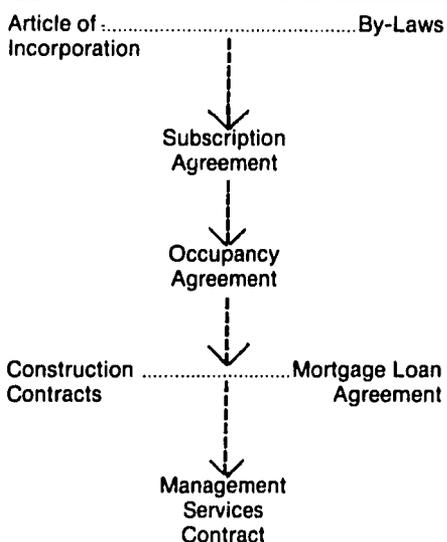
The major contract between the cooperative and its members is usually called the *occupancy agreement*. It is also known as *mutual ownership agreement* or *right of occupancy agreement*. Here the term *right of occupancy agreement* will be used, as this is close to the terminology used in many countries, especially in Latin America. This document spells out the rights and obligations of the member and the cooperative. It certifies the member's right to occupy a particular dwelling and to use the cooperative's community property as long as the member abides by the terms of the agreement.

The principal obligations towards the cooperative that a member assumes under the *right of occupancy agreement* are as follows:

- To pay the monthly carrying charges on time on or before the dates stipulated, and to pay late charges as determined by the board for delinquent payments;
- To abide by the rules and policies of the cooperative and preserve and promote the principles of cooperative ownership;
- To use the premises for residential purposes only, not engaging in any activity that would interfere with the rights of other mem-

bers or increase the project's insurance premiums, including any immoral or illegal activities on the premises;

- To make repairs to the dwelling when damages are caused by the member's own negligence or misuse (or if the member fails to do so, the agreement authorizes the cooperative to make such repairs, and to bill the member for the costs of such repairs.);
- To provide and maintain the interior decoration;



Typical legal documents used in cooperative housing projects in the order in which they are usually needed.

- To not sublet the units, make any structural alterations; or install heavy appliances without written permission of the board.

The *right of occupancy agreement* also establishes certain powers and duties for the board:

- To prepare an annual budget and determine the monthly carrying charges of the members;
- To refund to the members their share of any amounts collected in excess of the needs of the cooperative;
- To procure all necessary insurance for the project;
- To pay all taxes and assessments levied against the cooperative;
- To provide utility services;
- To provide and pay all maintenance required except that due

to members' negligence or misuse;

- To determine if compensation is to be paid to members in case of loss or damage of a dwelling, due to fire or other reasons; and
- To provide the necessary management for the cooperative.

In most of the Latin American countries, the *right of occupancy agreement* is normally for the life of the cooperative and/or the member, but it is subject to termination by either party for any of a number of reasons set forth in the by-laws or in the agreement itself.

In the United States the *right of occupancy agreement* is usually for a term of 3 years, with automatic renewals every 3 years. The agreement gives the member the option to renew and the cooperative the right to terminate a membership. It sets forth procedures for notifying an intended termination or transfer, and describes the circumstances under which a member will be considered in default, as well as what remedies the cooperative may seek in the event default occurs.

Construction Contracts

Handling of construction is a vitally important part of the legal framework in cooperative housing. Procedures should be established for adequate disbursement of funds to assure their use for the purposes contemplated, and to avoid diversion and waste. These problems may occur in two ways: a) if the contract does not produce the lowest possible price for the work to be constructed; and b) if the work done does not conform to the contract obligations. Construction funds should be disbursed at the correct time, to the proper party and only as construction progresses. This is the only way to assure that all of the funds will be correctly spent and that the project construction will be satisfactorily completed.

It will be necessary to schedule disbursements of the construction funds as the work progresses. Each time funds are disbursed, there should be a certificate from the architect stating that the work performed up to that point was satisfactory, and indicating the percentage of completion. In addition, there should be a certification from

a separate inspector who is responsible to the lending institution. Furthermore, in all disbursements there should be two hold-backs: one of them to assure completion of the entire project, and another to protect the cooperative against defects in construction. These hold-backs should be large enough to encourage the contractor to finish the work satisfactorily, and are paid to the contractor after the cooperative has taken delivery of the project.

Mortgage Loan Agreement

Long-term financing at reasonable interest rates for the target groups is critical for the success of a cooperative housing program, especially for low-income groups. Long-term or permanent financing, as opposed to construction financing, is provided through a loan agreement secured by a mortgage on the property, including the land and houses. As explained earlier, when the borrower is a *mutual ownership cooperative*, there is a single mortgage on all the houses and premises of the cooperative.

In most Latin American countries only two documents are used to secure a loan transaction:

- *The Loan Agreement* contains all the provisions related to the amount borrowed, the interest rate and the term of the loan, the borrower's obligations to repay the loan installments in due time, the penalty charges in case of borrower's default, and the right of the lender to foreclose on the loan when the borrower fails to pay a specified number of payments.
- *The Mortgage Agreement*, contains the legal description of the property, and stipulates the cooperative's intent to mortgage the property and improvements to secure repayment of the loan. The mortgage document is accepted by the lender and must be registered in the pertinent land registrar's office. In some countries, the *mortgage agreement* and the *loan agreement* are combined into one document, making it simpler to relate them to the same transaction. This alternative, however, does not provide any savings of notary or registration fees, since it is considered



Organizer reviews legal documents with cooperative members in Honduras. This ensures that members can take full responsibility for the housing project they will own.

that each document confirms a different legal transaction.

Management Services Contract

Management is basically the responsibility of the board. However, since management comprises such a wide range of activities, most of which demand full time dedication and specialized skills, cooperatives usually hire qualified staff to carry out the managerial functions. In many developing countries, housing cooperatives can contract for these services with the local cooperative housing federation or TSO at a moderate cost.

Administrative and management functions are well-differentiated and defined in the *by-laws* of Latin American cooperatives. Administration is carried out by the board under delegation from the membership. Management responsibility falls on the manager and other staff.

Finally, it is advisable for housing cooperatives to secure legal advice and assistance throughout the life of the cooperative beginning with the initial organizing efforts. The varied operations in which the cooperative is involved touch many areas of law, including commercial, contract, and tax law. To have fewer legal problems, it is prefera-

ble that housing cooperatives, until they have some years of experience, request legal assistance from the local TSO, rather than retaining the services of a local attorney or legal firm.

Special Issues

Occasionally, questions arise when the so-called traditional cooperative principles are applied and/or interpreted in accordance with existing cooperative legislation. Here are some examples:

Share Transfer Value

The issue of members' equity in a housing cooperative upon departure, death or retirement has produced widely differing opinions among cooperators in different countries. A housing cooperative is a non-profit organization and, therefore, questions arise whether it should be a source of profit to its members. Basically, there are three main alternatives for dealing with this subject:

- *Par value*: This provides that members who retire from the cooperative and resell their shares back to the cooperative shall withdraw no more than their original capital contribution.

- **Mortgage repayment:** This method prescribes that the member's share shall be resold to the cooperative for a price equal to the amount of downpayment paid in cash by the member, plus the payments made by the member which were credited to the mortgage.
- **Market value or open policy for resale:** This plan allows members withdrawing from the cooperative to make a capital gain on their equity, this gain being a function of the increase in market value of the land and buildings, caused by inflation, speculation and appreciation.

One Member, One Vote

In some countries, law prohibits representation by proxy in membership meetings, curtailing the voting rights of a whole family when the family member who is the registered cooperative member is unable to attend a meeting. A possible solution to this problem could be for the *by-laws* to prescribe that the voting power be used interchangeably by any qualified and authorized person in a member family. A second alternative could be that the *by-laws* authorize a split of the vote between the registered member and the member's spouse.



Cooperative members gather to celebrate the completion of their cooperative housing project in Honduras.

Conclusion

Correct legal documentation and procedures are important in that they provide the essential framework for the development of a housing cooperative. This establishes the relationship among the various participants, including the members, the cooperative itself, govern-

ment authorities, financial institutions and contractors. Correct legal documentation also sets forth the rules and regulations for the cooperative association that enable it, via the members, to assume responsibilities for the development and management of the housing cooperative.

The legal documents for housing cooperatives are prepared in accordance with the cooperative legislation of the country, state or jurisdiction where one is working. Although the legislation does vary, it usually allows for the development of housing cooperatives with the basic documents mentioned in this paper.

Additional information on specific legal aspects relating to housing cooperatives can be obtained by writing to the Cooperative Housing Foundation.

Other recent CHF publications include: "CHF Assists Honduran Organizations To Develop Low Cost Housing Cooperatives", "Rehabilitation of St. Martin Quarter (Port-au-Prince, Haiti)", and "Mansions in the Sky", a 36-page booklet on self-help housing in Botswana. For copies of these publications, write CHF.

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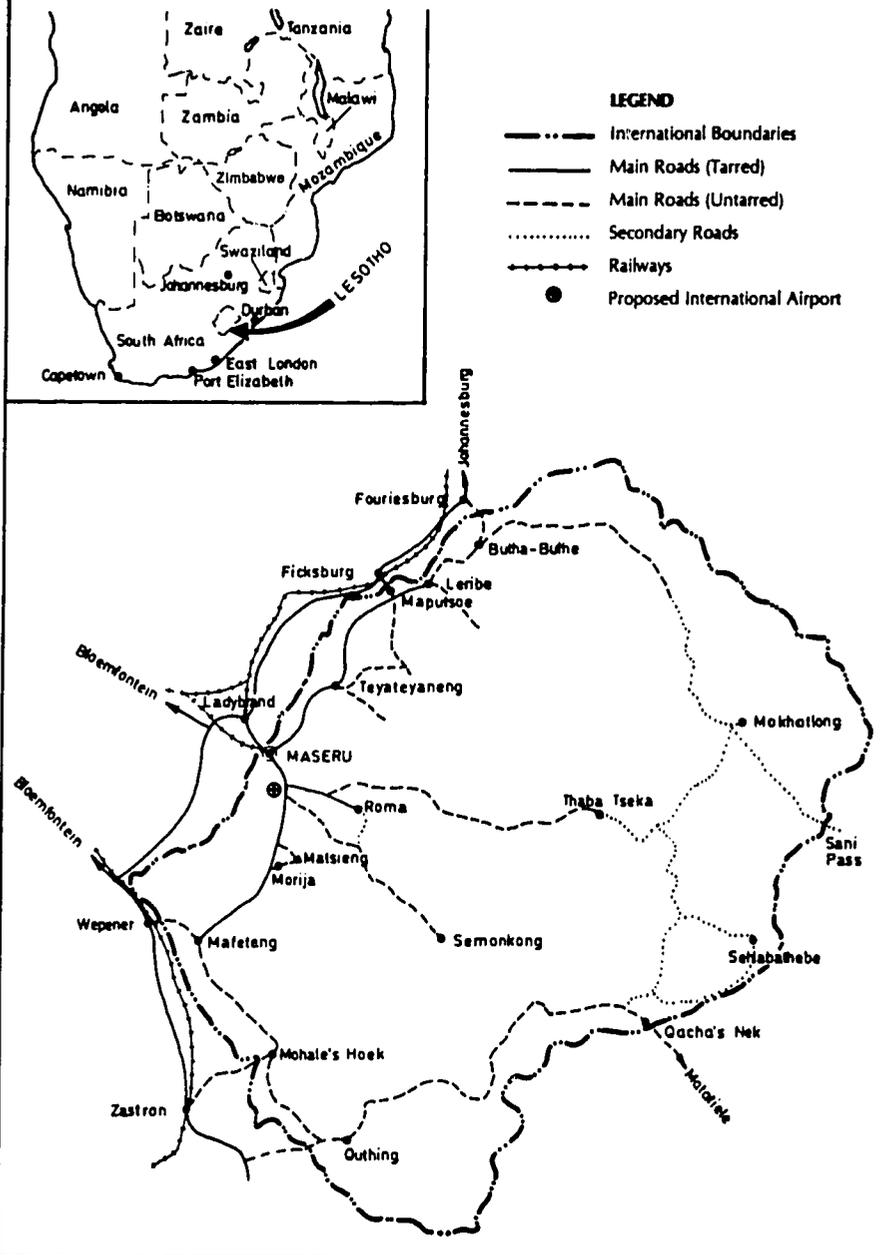
AFRICAN ENTERPRISE: NEW BUSINESS IN THE MOUNTAIN KINGDOM OF LESOTHO

**A Case Study on the Growth of
Building Materials Production
for Lesotho's Low-Income
Housing Industry**



The Cooperative
Housing Foundation

MAP OF LESOTHO AND SOUTHERN AFRICA



This report is published by The Cooperative Housing Foundation (CHF), a non-profit, 501(c)(3) organization dedicated to the development of better housing and related community services for low and moderate income families. (1983)

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Preface

This is an account of a successful business enterprise which produces building materials and home furnishings in Maseru, Lesotho, a sovereign kingdom in southern Africa. In this era when business enterprise promotion and employment generation are by-words, the focus of this account, PRODUCTION SYSTEMS (PS), makes a good case for productive, profit-making endeavors. PS is a division of the Low Income Housing Company (LECHO-OP).

The Cooperative Housing Foundation's (CHF) technical assistance was funded by a grant (OPG-632-0089) from the U.S. Agency for International Development (USAID). CHF wishes to acknowledge the support of the USAID Mission in Maseru during the several years the program evolved.

The support of the LEHCO-OP staff and its General Manager, Gabriel Mphakalasi, is gratefully acknowledged. CHF would also like to recognize the enduring interest and support of Vincent Makhele, Minister of Rural Development and Cooperatives and the first

Basotho Manager of LEHCO-OP.

This report, prepared by CHF Development Anthropologist John P. Mason, was reviewed by Jack Down, former CHF Resident Advisor in Maseru, Richard Metcalf,

former Government of Lesotho Housing Advisor, and Jack Edmondson, CHF Project Manager.

The publication of this report has been made possible by a Specific Support Grant from USAID.



Basotho laborers of PRODUCTION SYSTEMS mix concrete in a machine provided by USAID.



These Basotho were trained for jobs in the PRODUCTION SYSTEMS plant.

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PRODUCTION
SYSTEMS

BLOCKS

FURNITURE

COME IN

I. Introduction

The mountain Kingdom of Lesotho offers a timely illustration of a growing self-reliance in its shelter efforts.

The Basotho, as the inhabitants of Lesotho call themselves, have maintained a tradition of entrepreneurial ability. Supported by international donor agencies, they have developed a successful enterprise for the production of building materials.

In the past, the Basotho built their own homes of mud and stone, and thatch roofs, which had been gradually replaced through the use of

modern South African building materials. In recent years, however, self-reliance in housing has been regaining its original place in Lesotho, both in regard to local building materials and labor.

The success of Lesotho's increasing self-reliance in the production of building materials and housing is one of the major themes of the following account. It includes a description of: housing in the country; the role of foreign financial and technical assistance in building the housing program; the local organization that carried out the new

housing program; and the specific assistance provided by both the United States Agency for International Development (USAID) and the Cooperative Housing Foundation (CHF) in supporting this project.

The focus of this report is the building materials production unit, known as PRODUCTION SYSTEMS or, more commonly, PS, which grew out of the Lower Income Housing Company (LEHCO-OP). At the same time, the report underscores the conditions of housing in Lesotho which ultimately led to the development of both LEHCO-OP and PS.

II. Housing Situation in Lesotho and the Capital City

Until recently, the mountain Kingdom of Lesotho was almost totally dependent on the Republic of South Africa for its modern urban housing production. Bereft of natural resources—except water, stone, some narrow fertile valleys, and livestock—Lesotho's population of about one and one-half million is heavily dependent on South Africa for most of its imports

and jobs. Nearly all of Lesotho's major roads lead to the Republic; and its one mile of railroad track and its electric powerlines originate there. Most of the country's food, clothing and furniture are imported from South Africa, and its monetary exchange is totally based on that of its neighbor.

Almost a quarter of a million Basotho men work in the mines and industry of the Republic, leaving the country void of many essential skills, including housing construction skills. Another factor in

part responsible for the lack of a modern housing sector in Lesotho is the traditional land tenure system. All lands in Lesotho are leasehold, owned by the nation and held in trust by the King, who passes on the power of allocation to the tribal chiefs. Since there are no uniform procedures or guidelines for land allocation, the chiefs may sell land leases whenever they need cash, without regard to the resultant sprawl of buildings constructed on the fringes of the urban areas. Formerly, this



While urban sprawl has not produced high densities in Maseru, it has made the provision of water and sanitation facilities costly.

system did not allow the transfer of interests in the land, thus preventing the development of a mortgage market. In order to change that situation, the Lesotho Government adopted a Land Act in 1980 which provides for 99 year leases of residential sites and has encouraged the development of a construction industry as well as the financial institutions to serve the growing urban population.

Housing conditions in Maseru*, the nation's capital, are generally representative of housing and sanitary facilities in Lesotho's other urban centers. Almost two-thirds of the Maseru population of about 70,000 are renters, with the remainder owning their own homes.

A small percentage of monthly income** is devoted to housing in Maseru by low- and average-income earners. Only 10 percent is spent on shelter by the middle-income family, which is low when contrasted to many other developing countries. Such a small percentage of earnings for housing expenditure will cause major problems for the new housing industry. Moreover, building construction in Lesotho is expensive because imported materials are costly and transportation costs high. The Ministry of the Interior in Lesotho

estimates that, typically, at least one-quarter of monthly income is required to amortize a loan and pay monthly interest payments for a modest dwelling meeting basic safety and sanitary standards.

Because a modern shelter program did not exist in Lesotho until recently, there has been a backlog of housing need. In Maseru, the severity of the problem is aggravated by a shortage of building sites, a lack of low-cost public transportation to the employment centers of the central city, and a lack of piped water. The housing shortage is greatest at the lower income levels, due to migration from rural areas and a high birth rate.

The low income housing program and materials production center described in this report were designed to serve this poor urban population.

Housing Needs and Demand in Maseru

Housing need differs from effective housing demand. Housing need is based on the number of households which are without adequate shelter regardless of their ability to afford decent, safe and sanitary housing. Effective demand, in contrast,

measures the number of households in need of shelter which can afford to pay for structurally sound and sanitary housing.

According to the World Bank, between 1970 and 1980, Lesotho's population grew at an annual rate of 2.3 percent, while its urban population increased at an annual rate of 7.7 percent. Given the Government's conservative estimate of Maseru's population in 1980 of 65,000 and the average figure of 5.6 persons per household in owner-occupied homes, there is an annual need for 890 new housing units in Maseru. The Government of Lesotho has estimated, however, that effective demand is only 570 units per year.

The necessary capital requirements for housing amount to a sizeable 20 million Maloti (about US\$24 million). According to the recommendations of the report on housing in Maseru cited below, 5 million of that (about US \$6.1 million) could effectively be channeled to

* This section is based on a report by Richard Metcalf, "A Comprehensive Analysis of Housing in the Urbanized Area of Maseru, Lesotho," Ministry of Interior, July, 1981.

** Median monthly household income in urbanized areas in mid-1980 was 139 Maloti, or US\$169 (one maloti = US\$1.22).

low-income families. The remainder could be tied to projects for middle-and upper-income families.

Given the financial constraints on housing development, one possible solution, also cited in the same report, would be to provide preferential loans for poor families who agree to rent one of the two rooms in their new house to another low-income family. In this way, a steady income would be made available to new home owners, enabling them to pay off their building loans. Furthermore, it would effectively provide housing for two families instead of one.

Lesotho's housing situation must be compared to urban conditions in other developing countries. For many of the latter a sizeable growth of urban centers is occurring because of the rural push—urban pull. The result of rural migration to urban centers in search of jobs and schooling is overcrowding with the resulting spread of squatter

settlements. Maseru, on the contrary, does not have any high density squatter settlements—one does not see many tin or cardboard shacks which are common in many cities of developing countries. On the other hand, Lesotho's capital city does have some urban sprawl. This makes the delivery of water, sanitation, and electricity services, and the building of roads, schools, clinics and other community services difficult and costly.

Despite the urban sprawl in Maseru, it must be noted that the housing which has resulted from the extension of the water and sewer lines is generally built of solid materials. Most of it is constructed of stone—locally acquired—which is held together by mud and/or mortar.

If any one shelter problem can be diagnosed as more pressing than any other for Lesotho, it is the combined situation of inadequate water supply and sanitation. Much

of the water has to be carried by hand 1000 feet or more. Some 13 percent of the residents have no toilet facilities and an additional 30 percent have to rely on buckets for sanitation. Low cost sanitation methods are now being developed, an approach which will allow the spread of meager funds to the greatest number of people.

All in all, then, the housing picture in the capital city of Lesotho is by no means as drastic as it is in many other cities of the third world. Nevertheless, it was felt within the government that some attention must be given to the housing situation of the country before it deteriorated further. This was so, both in terms of filling a growing need for improved shelter, and in creating the ability to act on its own, independently of its neighbor, in fulfilling that need. Into that context, donor assistance was introduced as a primary stimulus.

III. The Stimulus of Donor Assistance in Low-Income Housing

In the early seventies the Government of Lesotho began to focus on a national housing policy. From that evolved a national program, with emphasis on housing for the poor. In 1974 the United Nations Development Program (UNDP) commissioned the International Cooperative Housing Development Association (ICHDA) to do a feasibility study on low-cost and self-help cooperative housing. The report recommended a pilot program of low-cost housing. UNDP's

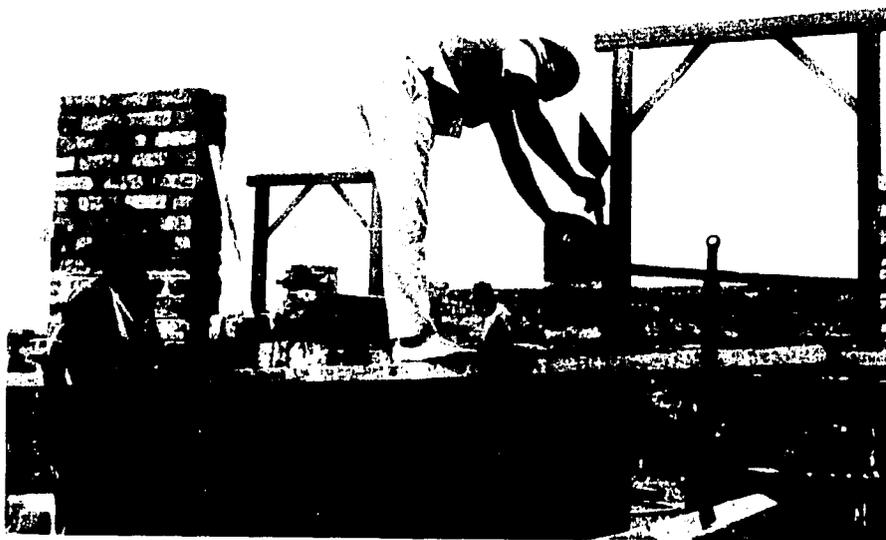
funding arm, the Capital Development Fund (CDF), made a grant of \$845,000 for water and sewer facilities, roads, and for a revolving home mortgage loan fund for a 200-unit housing project. UNDP also made a grant of \$520,000 for implementing the pilot program. The Government of Lesotho agreed to pay the project's annual recurrent costs.

LEHCO-OP: Lower Income Housing Company

In 1975, ICHDA sent a housing advisor to Maseru to help the Basotho set up the recommended pilot project of cooperative housing. The

leaders intended this project to be a pilot demonstration effort which would strengthen Lesotho's then emerging national shelter policy. As a sign of the project's importance to Lesotho, the King himself inaugurated it. To organize the project, a technical service organization* was created in 1975 by the Government and ICHDA, named the Lower Income Housing Company, LEHCO-OP.

*A technical services organization, or TSO, is a generic term for a private or quasi-public sector organization that sponsors, develops and/or manages housing cooperatives.



Skilled Basotho workers, trained in the LECHO-OP program, put their skills to work.

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Objectives of LEHCO-OP

- **Provide Low-Cost Housing in Market Towns**
- **Make Home Improvement Loans Available to Poor Families**
- **Create Income Opportunities in Construction Industry and Room Rentals**
- **Build a National Institution Capable of Producing Low-Cost Housing Throughout the Country**

One objective of LEHCO-OP was to provide low-cost housing in market towns. Another was to make home improvement loans available to the poor, who did not have access to credit for that purpose. Yet a third objective was to create income opportunities through employment in home construction and the building materials industry, as well as from room rentals by new home owners. LEHCO-OP also had the objective of creating a national capacity to provide unsubsidized, low-income housing. Another aim that evolved early on was the production

of local building materials, a topic considered in the next section.

The pilot project funded by UNCDF and implemented by LEHCO-OP was known as the Mohalalitoe Cooperative Housing Society. Families were selected for the cooperative according to the requirements that they had dependent children, were in need of housing, and yet were able to make a small down payment and maintain monthly charges on the house. In fact, the requirements meant, almost by definition, that these were families which were *not* at

the lowest income level. Nevertheless, certain principles of the low-cost housing program have been demonstrated in this project.

Under the initial phase of the project, 185 units were completed. Close to a thousand units have been planned or completed in later phases under Canadian International Development Agency and World Bank funds. Organization and construction techniques used in cooperative housing projects, including a modified self-help approach, were taught to the beneficiaries through on-site training during construction.

IV. Production Systems: Self-Sufficiency, Economy and Jobs

One of the critical concerns of Lesotho's infant housing industry was its lack of quality building materials. Several alternatives were considered and rejected. Family businesses in the river areas had traditionally supplied burnt brick of a high quality, but their output was far too small for a major housing project. Similarly there were too few skilled stone masons to take advantage of the abundant hard stone, even though stone has been a traditional building material in Lesotho. Local cement blocks were expensive and of an indifferent quality. High prices had to be paid for South Africa's quality products. Undependable delivery was another price of dependence on outside sources. As a result of producing building materials in Lesotho, jobs would be created inside the Country and the foreign exchange in its balance of payment with South Africa would be conserved.

The formation of PRODUCTION SYSTEMS (PS)* under the aegis of LEHCO-OP in 1977 was modest, indeed. Its mandate was to produce and supply low-cost building

Objectives of PRODUCTION SYSTEMS

- Ensure Delivery to LECHO-OP of Concrete Blocks of the Best Local Quality at the Most Competitive Prices
- Furnish Products for Beneficiaries of LEHCO-OP Projects
- Expand to Fill the General Public Demand
- Earn a Profit
- Generate Jobs

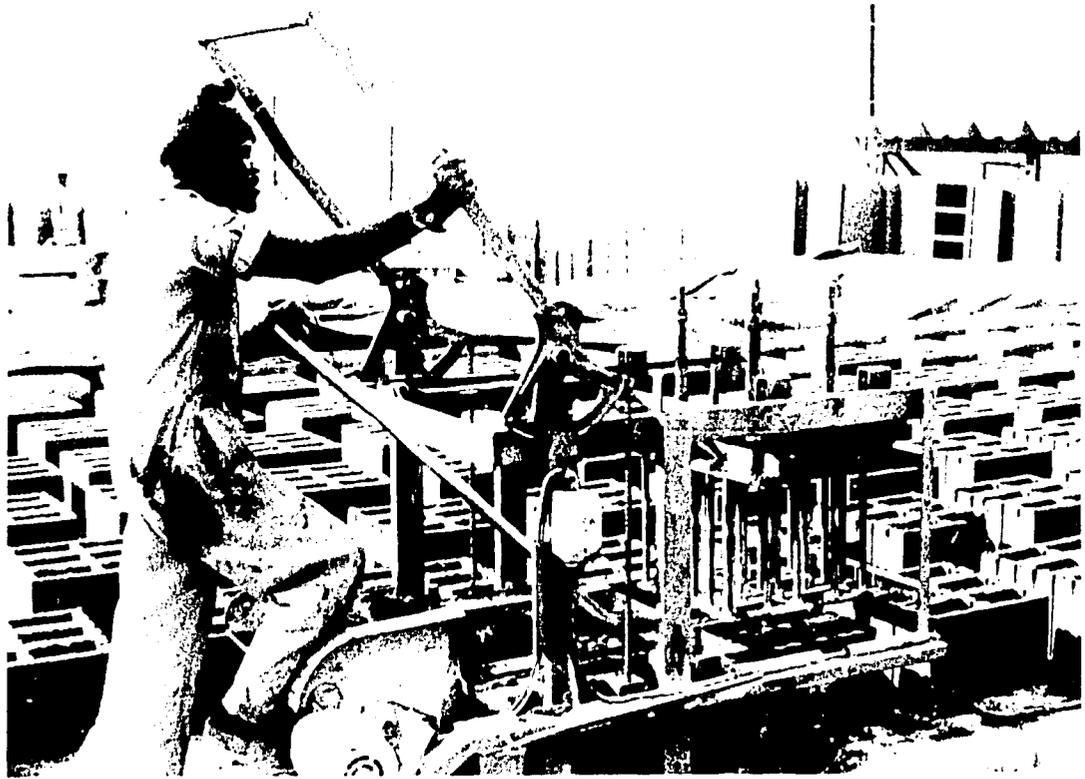
materials for all of LEHCO-OP's projects. PS' origin was not all neat or pre-planned, its objectives (as seen in the accompanying chart) having evolved only gradually. No formal agreement between LEHCO-OP, the parent

organization, and PS was made, initially making for

*While PS began as a small business, it soon mushroomed into a more sizeable entity—certainly not small relative to other business organizations in Lesotho.



PS' block making division provides high quality concrete blocks and also creates jobs—one of the organization's prime objectives.



This block making machine, funded under a USAID grant, can produce at least 2000 concrete blocks a day.

difficulties in its administration and financial accountability. In fact, some question arose concerning the use of donor funding by LEHCO-OP in setting up PS, given the absence of an appropriate and timely notification to the donor. Nevertheless, PS would seem to be one of those cases where the results justify the risk of going into a new business venture. Lesotho is far better off now than ever in its production of building materials and furniture.

PS began its production crowded into two very small facilities. The first advisor to this project was a volunteer who succeeded in helping to produce the first cement blocks; he also designed the first windows and doors. Unfortunately, since he was not experienced in housing construction, the doors and windows had design flaws; meanwhile the block-making machine which was designed to produce 1500 to 2000 blocks per day, was only producing 425 per day.

Faced with many technical and managerial difficulties, the leaders of LEHCO-OP requested the British High Commission to send a millwright advisor, who would ultimately act as salesman, personnel manager and trainer.

Originally, PS had the status of a department under the direction of LEHCO-OP. PS' major customer was and still is the parent organization, although after first filling LEHCO-OP's requirements, it is permitted to sell

directly to the public, including contractors. Under an agreement between LEHCO-OP and PS, a contract was placed for 700,000 concrete blocks to be used in LEHCO-OP's ongoing housing projects. Fortunately, because LEHCO-OP agreed to purchase cement by the railroad carload from the Cement Marketing Organization jointly for itself and PS, funds were freed for PS' use in increased block and joinery production. A surplus stock of 120,000 blocks was produced in order to adjust to the lag time in cement delivery and to permit sales to the public.

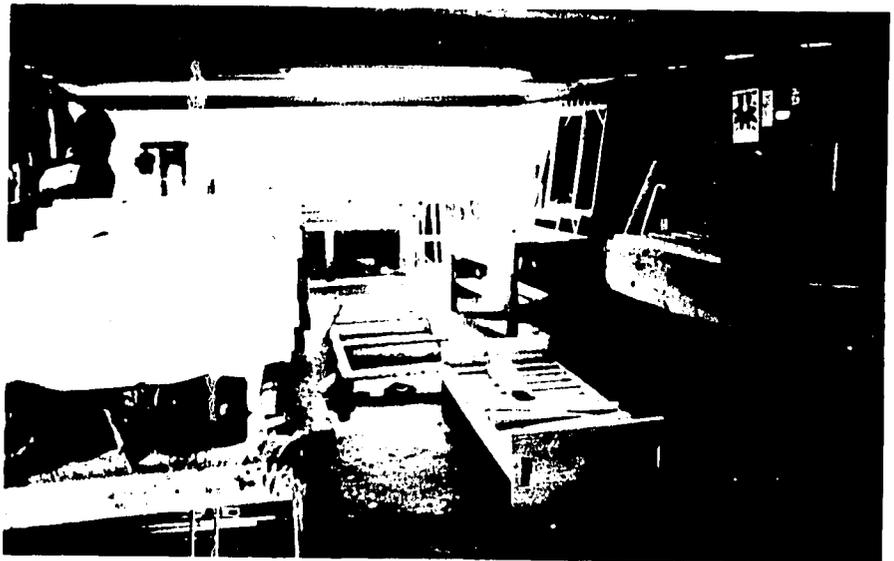
PS had as one of its objectives job creation. This it shared with LEHCO-OP as one of its original program commitments. In fulfilling that goal, PS grew to employ 70 people. That number was eventually reduced as part of an efficiency move and the wages of remaining employees raised. As of December, 1981, at the end of USAID's grant to CHF, the number of employees had returned to over 70 because of increased production, not overstaffing, as before.

PS facilities have expanded along with production, including: addition of a new concrete products slab to serve as the platform on which the blocks are made;

and new machinery, including mixers, block presses, and a joinery plant. Although the production level was originally only 450 blocks a day, it was most recently measured between 2,300 and 2,400 a day. That level has been paralleled by an increase in take-home pay of 20%. These blocks are high quality and are competitively priced at \$.57 per six-inch block, compared to \$.60 from the closest competitor.

In addition to block production, PS has a joinery where it produces cabinets, furniture, and window frames, among other items. The management of PS

decided to produce these higher cost products because there was a real demand for well tooled wood and joinery products and they yielded a higher margin of profit than other lower cost items. Prototypes for low-cost furniture and building items were produced and included a hanging wall table, bunk bed, kitchen cabinet, wardrobe, double and single bed, and window and door frames. These items are now being produced on a regular basis and are very popular in Maseru. While many of the items are not affordable by low-income families, their production by PS has helped to maintain profits.



PS' original furniture workshop produced for general use—not just low-income households—a decision based on economic survival.

V. USAID-CHF Advisory Role

PS's expansion and improvement have taken place with the assistance of USAID. CHF assigned a technical advisor to work with PS in February, 1978, under what is called an Operational Program Grant. Besides funding the advisor, the grant included \$75,000 for buildings, work area, machinery and tools. A later extension of the grant included \$100,000 for purchase of new machinery and raw materials.

One of the most important goals of the technical assistance effort was to train and promote Basotho personnel during the early years of the project. In this spirit, the ICHDA project director of

Role of the CHF Resident Technician—To Advise PS on the:

- Design of a Financial Reporting System
- Development of a Marketing and Advertising Program
- Creation of a Program of On-The-Job Training in Joinery Skills
- Drafting of Policies and Procedures for Employees
- Streamlining of Manufacturing Operations
- Construction of New Production Facilities

LEHCO-OP, funded through the UNDP, stepped down once the project was well under way to make way for a Basotho.

The CHF advisor to PS, commencing in February, 1978, and continuing through 1981, had responsibilities in a broad range of activities, including finance, management, training, marketing and construction. The advisor

focused on working with the Basotho employees in improving the finance management system of PS. This included streamlining and updating the accounting system, designing and installing a financial reporting system, and providing the financial planning for 1978-1979 and 1980-1981. Together they produced a "Manual of Accounting Procedures for PS". The CHF advisor also advised the Basotho on the improvement of PS manufacturing operations, and devised a system of manufacturing cost-control. Furthermore, the advisor helped in designing a marketing and advertising program for PS products.

To encourage employee participation in the management of the operation, the advisor worked with the staff to develop policies and procedures for accounting and



PS' woodworking plant was funded under a USAID grant.

reporting, job descriptions, and for defining the relationship of PS to LEHCO-OP. The advisor helped to create a program of on-the-job training in joinery work. A program was also formulated with the advice of the CHF resident technician to train PS personnel in supervisory skills.

The advisor helped supervise construction of a 1500m² block-making facility. That facility has a productive capacity of one-half million blocks per year. In addition, CHF provided specialized short-term advisory services to assist in plant layout and design for a modern joinery outfitted with semi-mass production equipment.

One activity the CHF advisor was working on just prior to his departure, was to tie PS to the local credit union structure in Lesotho. Once established within LEHCO-OP projects, these local credit organizations would permit project beneficiaries to buy building materials and home furnishings from PS on low-interest credit.

One valuable product of the CHF advisor's activity in Maseru is the "Operational Procedures Manual for Productive Systems." This manual systematizes the many aspects of PS' work

and incorporates its contents in a training program. Its impact on the long-term operations of PS could be significant, a factor which should become clear a year or two from the time of the advisor's departure.

Finally, one of the most difficult objectives accomplished was to work out the most beneficial relationship between the non-profit LEHCO-OP and the profit-making division, PS. If PS were to be successful as a

business operation, then the link to its non-profit parent had to be defined carefully in financial and managerial terms. A protocol was worked out for the two units through the assistance of the CHF advisor in December, 1981. This defines the working relationship between PS and LEHCO-OP in terms of the former's right to make a profit but with the responsibility to serve the low-income beneficiaries of LEHCO-OP's programs.



This talented Basotho woman, with the help of training, rapidly worked her way from PS' bookkeeper to accountant.

VI. Lessons Learned

Technical assistance or technology transfer from industrial to third world settings is not easy. In the case of housing cooperatives—such as for LEHCO-OP—or employment generation programs—such as for PRODUCTION SYSTEMS—it is not simply a matter of introducing the concepts and the material, then expecting results. At least in part, it is a matter of meshing two different systems, two cultures, if you will. One, the industrial, is rooted in a work ethos of “get-it-done: because if not, it will cost profit and time.” The other, the developing world, whose peoples also work for specific results, is more geared to traditional modes where other values, such as those rooted in a kinship-centered, non-materialistic orientation, often operate.

Nevertheless, when a Western system of thinking and doing met with an African system in Lesotho, positive results occurred. One result is that through PS, Lesotho has made a start in reducing its dependence on South Africa for building materials and home furnishings. Despite early success in that realm, Lesotho will no doubt remain dependent on the Republic for

most basic commodities, given its limited resource base. Furthermore, the new building materials industry has created jobs for the Basotho in their own country. What is equally significant is that the Basotho have shown themselves to be energetic and enterprising in the realm of low-income housing. They have begun to create the nucleus of a housing industry and if this capability can be transferred to other sectors, so much the better for Lesotho. That would affect not only the larger, socio-economic position of the country but would also touch the individual Basotho in important ways, in that more jobs and a greater array of consumer items could become available.

On the project level, some salient lessons have been learned. One is that in a project such as LEHCO-OP and its offshoot PS, commitment is an important ingredient. In the case of PS, understandably, the directors and management of LEHCO-OP sometimes wavered in their support of the effort. During times when PS was not in a position to break even or show a profit, support waned. Conversely, when a clear profit was evident, support increased. This situation is not unnatural, given the risk factor involved in such an effort. Since private investments

were not made in PS, however, the risk was not a personal one. And, while the exercise of public trust over development funds is essential, an attempt to promote and organize production on a competitive basis could perhaps have been treated with more flexibility. As it turned out, the risk of using public funds in a business venture was worth it.

Another factor which did not facilitate the PS effort was the company's relationship to LEHCO-OP. If PS was to operate as a company for profit, then its financial operation had to be kept separate from that of the parent group. In other words, it was best not to mix the profits of PS with the operating budget of LEHCO-OP. Since PS was aiming for a self-sustaining status, it required a degree of independence in financial and administrative matters. This issue seems to have been satisfactorily resolved in light of the December, 1981, protocol between the parent company and its business division.

A final matter concerns training and the speed with which people can be recruited for or promoted to management positions. While training Basotho for skilled labor positions within PS has worked very well, the complexities involved in readying

staff for management of a million dollar operation have been formidable. The problem is a perennial question in the development process: should technical advisors provide a model for a host country national by actually *doing* the job or should they

train the person from 'outside' the position? In the first case it means doing the work of the national, a situation which other nationals criticize as 'taking over.' On the other hand, formal training alone may not be effective, since management functions

must also be demonstrated by example. Thus, advisors may find themselves in a dilemma, of 'doing' versus 'advising.' This is a dilemma which is not easily resolved. In fact, it is a condition perhaps endemic to development technical assistance.



PS' woodworking is done by skilled craftsmen trained on the job.

VII. Conclusion

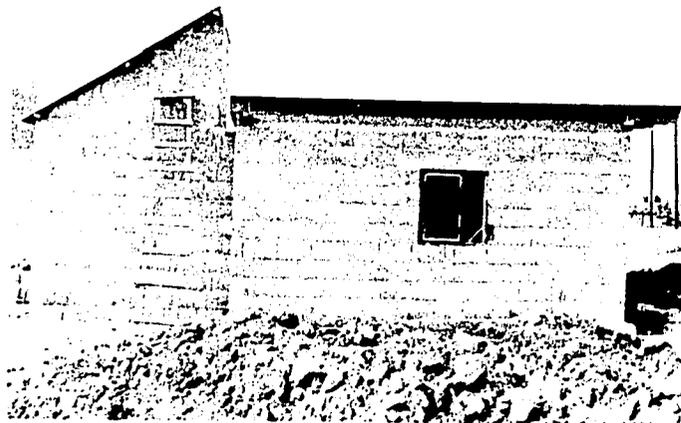
That PS has survived many crises shows that there is a strong need for a business like it which manufactures needed materials and creates jobs. That the operation has succeeded is something of

which the Basotho can be proud. After technical assistance terminated, both commitment and hard work from the Basotho continued to be required to guarantee the permanent success of PS.

USAID can be satisfied in knowing that its funds have been effectively utilized

in bringing to life the concept of the small and medium-sized enterprise which contributes to the development process and ultimately to the benefit of people in need of its economically-priced products. It is an idea whose time has certainly come.

Through PS' economic manufacture of quality building materials...



housing is now within the reach of many more of Maseru's residents.

VIII. Appendix



PHONE 22445 BOX MS 770 MASERU KINGDOM OF LESOTHO

Date _____

COST ESTIMATION

FOR _____ Tel. Home _____

_____ Tel. Office _____

We estimate total cost(s) for the following item(s):

_____	M	_____
_____		_____
_____		_____
_____		_____
_____		_____
_____		_____
_____		_____

GRAND TOTAL M _____

Down Payment _____

Balance due upon completion M _____

ORDER NO.

000101

Customer OK _____

GOOD FOR 30 DAYS ONLY

FORM NO. 101

Distribution:-

Top (white) copy : to customer
 Second (blue) copy : to accounts (when job complete)
 Third (yellow) copy : stapled to Job order (after being returned from accounts with invoice No. added).

Sample of PS Cost Estimation Form

JOB ORDER FORM



CUSTOMER _____

ADDRESS _____

PHONE: OFFICE _____ HOME _____

TAKEN BY _____ DATE _____

ORDER NO. _____

CUSTOMER'S PICTURE OR SKETCH OF ITEM

Note: 3 pages containing technical information (X4.3, X4.4, X4.5) have not been included in this manual.

The complete form is, however, available for examination in the Technical Office.

Sample of PS Job Order Form

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production systems

PETTY CASH VOUCHER

Serial No. :

Issuee's name

Date

Account

D	M	Y
---	---	---

Particulars of goods/services to be purchased

Estimated Amount

Rands	Cents

I have received the above-noted amount
for purchase of the goods/services
specified.

Signed (Issuee)

Date:

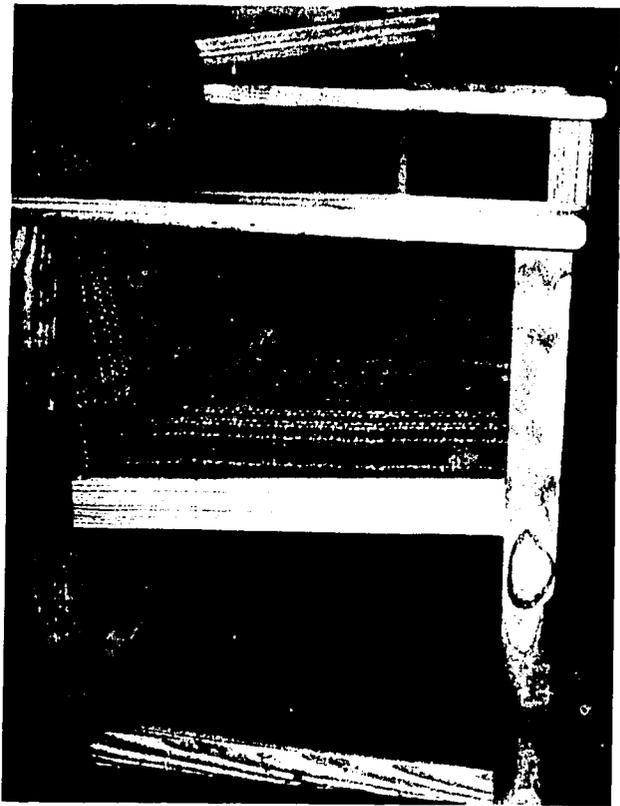
The actual cost of the goods/services
was R _____ as evidenced by the
attached receipt/invoice No. _____.
Details have been entered in the
Petty Cash Book.

Signed (Accounts)

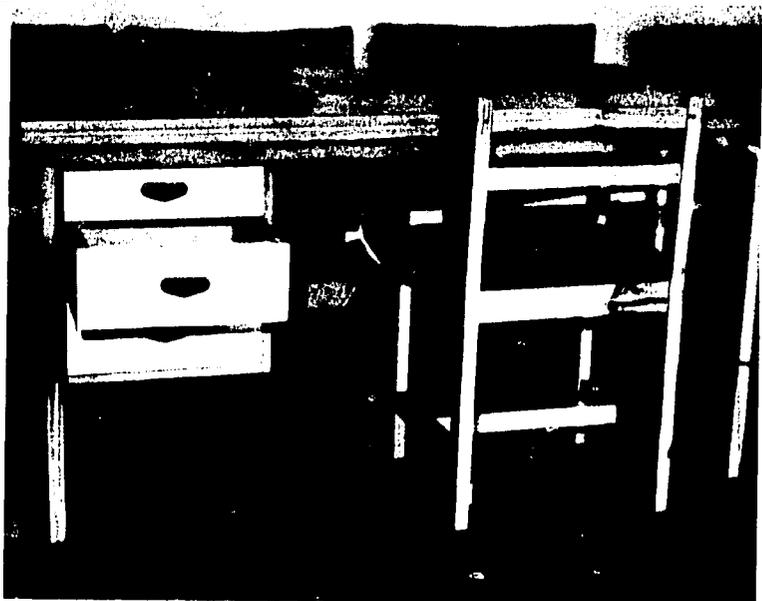
Date:

7 9

Sample of PS Petty Cash Voucher



**Samples of PS home and office
furniture**



March 15, 1983

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SPECIFIC SUPPORT GRANT BUDGET #1

No. PDC-0207-G-SS-1028-00

<u>POSITION</u>	<u>Approved Budget 3/15/81 - 3/14/83</u>	<u>Amount Vouchered to 2/24/83</u>	<u>Est. Expenses to 3/14/83</u>	<u>Person Month 3rd Year</u>	<u>Budget 3rd Year</u>
Coordinator				2.5	13,125
Coop Planners & Programmers				12.2	60,120
Coop Developer & Trainer				14.2	46,725
Evaluator				3	10,554
Communication & Networker				5	12,080
Legal and Finance				2	6,528
Secretaries				<u>13.2</u>	<u>16,966</u>
<u>INDIRECT COSTS</u>					<u>166,098</u>
Administrative (38.14% of Salaries)					146,399
Employee Benefits (10.89% of Salaries)					18,088
<u>TOTAL INDIRECT COSTS</u> (99.03% of Salaries)					<u>164,487</u>
CONSULTANTS					3,500
TRAVEL					25,545
PER DIEM					21,590
OTHER DIRECT COSTS					38,780
TOTAL					420,000

*Although no consultant line item was included in the Second Year budget consultant expenses were incurred. A consultant expense is anticipated in the Third Year budget.

March 15, 1983

SPECIFIC SUPPORT GRANT BUDGET #2

No. PDC-0207-G-SS-1028-00

<u>POSITION</u>	<u>Approved Budget 3/15/81 - 3/14/83</u>	<u>Amount Vouchered to 2/24/83</u>	<u>Est. Expenses to 3/14/83</u>	<u>Person Month 3rd Year</u>	<u>Budget 3rd Year</u>
Coordinator			5,963	3	15,750
Coop Planners & Programmers			1,845	14	67,275
Coop Developer & Trainer			619	16	44,834
Evaluator			600	4	16,600
Communication & Networker			184	7	16,248
Legal and Finance				3.5	11,956
Secretaries			500	19	20,360
	<u>240,098</u>	<u>232,783</u>	<u>9,711</u>		<u>193,023</u> 16.3
<u>INDIRECT COSTS</u>					
Administrative (88.14% of Salaries)	211,622	203,926	8,559		170,130 16.2
Employee Benefits (10.89% of Salaries)	26,147	25,196	1,058		21,020 16.2
<u>TOTAL INDIRECT COSTS</u> (99.03% of Salaries)	<u>237,769</u>	<u>229,122</u>	<u>9,617</u>		<u>191,150</u> 16.2
CONSULTANTS		12,739			5,000
TRAVEL	31,800	30,460	830		28,027
PLR DIEM	21,981	24,515	166		24,400
OTHER DIRECT COSTS	53,352	34,277	781		45,400
TOTAL	585,000	563,896	21,105		487,000 15.9%

*All other consultant line item was included in the Second Year budget consultant expenses were incurred.
A consultant expense is anticipated in the Third Year budget.