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HOUSING CO-OPERATIVE SOCIETIES

as a source of finance
for low-cost housing.

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Introduction: With reference to an earlier paper "Financing of Housing in Kenya, some major issues" the purpose of this paper is to elaborate further on the implementation of the policy as far as Housing Co-operative Societies are concerned. The frame of reference is present conditions in Kenya, but the scope will be limited to those societies, which primarily cater to members in the lower income groups and therefore mainly interested in providing houses in the range of Shs. 8,000 - Shs. 20,000. Other housing societies are not to be disregarded, neither is it inconceivable that societies with low-income members should find it advantageous to build medium - or high - cost housing, as all of these societies would contribute to the total supply of housing. However, based on the conclusions in the above mentioned policy paper the emphasis should be on low-cost housing for the next planning period.

Existing Societies:

As an appendix to this Paper will be a list of existing societies as at November 1st 1967 giving details of each to the extent we have been able to collect them. It is worth noting that out of the 14 registered societies - and the Department of Co-operatives knows of none unregistered - 8 are Asian societies concerned with medium and high-cost housing. Of the 6 African societies, one is without money, because of fraud, one has been deregistered and one is in liquidation, which leaves only 3 viable societies in the low-cost housing sphere. One of these also receive funds from a religious foundation and is therefore not of immediate interest.

The two remaining societies are in some respects atypical as co-operative societies and both of them have been registered lately and have therefore not had time to prove themselves successful or otherwise as yet. A short description of each of them will illustrate some of the major problems facing such societies:

The Gikomba Building Co-operative Society was started in 1963 by the present Chairman and 9 other members living as illegal squatters in the Gikomba area of Nairobi. The purpose was, and still is, to provide low cost housing for members now living at Kariobangi, - after the eviction from Gikomba. At Kariobangi the members who are casual labourers or self-employed were allocated plots in the 'City Council's Site and Service Scheme' along with many others. The Society was registered in 1965 and membership had increased to 50 by July 1966. Recently some members have been expelled because they have sold their plots. From contributions (shares and membership fees) the Society has been able to collect enough money to build, initially, one house at the cost of Shs. 14,800/-. The house (cement floor, stone walls, corr. iron roof) is of 740 sq.ft. divided into three sections of two rooms each. The house was subsequently let to three non-member families for Shs. 120/- each, which after payment of plot-rent and water charges brings a net revenue for the society of Shs. 360/- - 60/- = Shs. 300/- per month. With this income and additional subscription of shares the Society has now been able to complete another two houses, which are also let to non-members on the same conditions. A fourth house is nearly completed and half a dozen are at various stages of completion. (1)

(1) This rather wasteful approach was due to a misunderstanding, in that the plot holders were told that if the plots were not being developed, they would be confiscated by the City Council. This has now been rectified by the City Council in case of the members of the Society.

The Society has copied a design of a common house in the estate and employs and supervises its own labourers.

In 1965, the Society approached the then Central Housing Board for a loan of Shs.200,000/- in order to speed up the construction, but after two years of correspondence and meetings, the Board decided to turn the matter over to the City Council as their responsibility. The City Council, in turn, asked the Commissioner of Cooperatives to guarantee the loan on behalf of the Society. There is no legal nor moral basis for this and the Commissioner consequently had to refuse such responsibility. This is where the matter stands at present, though the City Council has indicated that in the present circumstances the loan will be given by the City Council without any other security than the houses being built for the money. If, and when, the loan goes through the Society will be able to build 20 houses(2) of the same standard and size, and the procedure is to allocate houses to plottolders in order of first-came-first-served. The justification for this is that as long as the plot is vacant the plottolder pays his own Shs.30/- rent, but as soon as the house is completed and inhabited the rent is payed by the Society, as it also gets the income. The C.C. loan will almost certainly be given on the condition that a member occupies at least one section (1/3) of the house. This has not been the case with the completed houses and it will be difficult to enforce, unless the Society complies simply by asking tenants to buy a share of Shs.50/- in the Society before moving in!!(3)

Generally speaking the Society seems well organised, but lacks in such skills as book-keeping and administrative procedure. They have received some help along these lines from the Co-operative Department. The Committee feels that it will be easy to recruit more members once people in the area see that more houses are being built by the society. At present members are living as lodgers or own much poorer houses elsewhere, and it is therefore difficult to see that in that sense it is fulfilling its purpose. However, when all houses have been completed the Society intends to turn them over to the original plot-owners, so that the members can either live in them or continue to let them (at a profit) and in that sense it complies with the co-operative idea. Moreover, some of the members are skilled labourers, who work on the houses and get paid, whereas many other members help without being compensated. There is apparently strong internal pressures put on those, who are not doing their share in the construction. This is very much the traditional attitude and procedure, when constructing huts in a village.

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- (2) It is calculated that by gained experience and economies of scale the cost of a house can be reduced to Shs.10,000/-.
- (3) It is very likely that tenants will accept this, since the market rate for similar accommodations in the area is Shs.150/- per month. Formally it would suffice to ask them only a membership contribution of Shs.10/- but there is a good case for mobilization of capital here.

The other society concerned with low-cost housing is the

Kariobangi Housing and Settlement Co-operative Society, which yet has not built any houses, but have been formed in 1964 by 400 illegal squatters in the Mathari Valley in order to buy the 12 acres on which they were living, thereby avoiding eviction. The purpose, of course, is not only to buy the land but subsequently to build better houses for the members. At the time of writing they have collected Shs.22,000/- and made a payment of Shs.12,500/- which is half the price of the land. The balance is soon going to be paid off and the society intends to apply to the City Council for a loan in order to improve their existing houses.

The society is definitely viable and under strong leadership, but the actual implementation of their ambitions may have to be guided in another direction, because the area in which they now reside does not come under the immediate development plan for services by the City Council, whereas a site nearby is already being developed and may prove much more advantageous to the society in an earlier and more satisfactory fulfilment of their purpose. On such matters the Co-operative Department should advise them.

A couple of principal questions arise in respect to this latter society. As each member has paid Shs.55/- (membership fee plus a share) they feel that they should each have a plot and a house eventually. But since within one family there may be two or even more members of the society, it seems more feasible that the numbers of plots and houses required should be determined by family units rather than number of shares, - the latter factor, instead, having influence on the number of rooms in the house. The other question is in regard to numbers of members. This Society is trying to increase the number of members from 400 to 500 just to raise the extra capital needed to pay the balance on the purchase of the land. They recruit members inside as well as outside the existing village and realize that it will be impossible to house them all on that particular piece of land. Rather than to frustrate the hopes of many 'outside' people, it would seem more appropriate to ask the initial members to pay (buy shares) an amount each month equivalent to what the debt-servicing will amount to once the houses are built.(4)

A brief mentioning of the 'religious' societies may serve as an indication of how successful housing schemes are carried out. An average of 100 members each buy a share of Shs.500/- in the society and on the basis of that they raise the additional capital needed from religious foundations, such as the Ismailia Diamond Jubilee Trust Fund but some also from Insurance companies at market rates. The construction of houses as well as flats is carried out by private contractors (preferably members of the society or at least of the community). The average price of these medium-class accommodations is Shs.40,000/- per unit. To be repaid over a period of 16 years at an interest rate of 6-8% which gives an approximate monthly instalment of Shs.250/-. After repayment the house or flat belongs to the member and he is free to rent it, sell it or continue to live there as he chooses. This has created some problems in the case

(4) An amount of Shs.50/- to Shs.75/- is what the members have indicated they can afford. This amount should govern the type of house and financing to be provided later, for instance Shs.8,000/- at 7% over 20 years.

of maintenance of flats as especially the exterior of such blocks suffer due to lack of agreement and coordination among the now-owners, (whether absentee or resident).

The temptation of subletting units at a higher rent than that paid to the society has not been very common, as it would have been against regulations and is enforced by the proximity and loyalty of members.

Problems, Solutions and Prospects, short-term

In word as well as action it has been demonstrated that the policy of the Kenya Government is to stress the importance of co-operatives, it is therefore not the purpose of this paper to question this policy, but rather to suggest how co-operatives in the housing sector can serve to mobilize capital and add to the supply of dwellings especially for the low-income groups.

There is nothing inherent in the situation, which makes it impossible for African low-cost housing societies to thrive - let alone medium - and high-cost societies. The major problems have been in three areas, namely those of integrity, perseverance and innovation, all of which is not a matter of money nor to any demonstrable degree, education (which again often is a question of money). Innovation i.e. imagination to form a society for the purpose of building houses must come first. This idea came to the leaders of the two societies described earlier simply out of desperation. If they succeed, and that is why they should receive all possible support from the Department of Co-operative Development and other Government offices plus local authorities, (5)- then the idea will undoubtedly spread. This is again an area, where the Co-operative Department should be ready with publicity and assistance. Perseverance, which is next as an imperative element in economic development, can be greatly enhanced if a society, once it has been formed, can see tangible results of their efforts. In practical terms it means that whatever they have to go through of formal procedure should not take on the order of two years - as in the case of the Gikomba Society, albeit not due to any fault of its own - but should be streamlined to a matter of course. As soon as a housing society has been registered the Co-operative Department should provide it with at least the following services:

1. Plans for various types of houses including material and labour cost.
2. List of existing Housing Co-operatives and description of their projects.
3. The necessary books for registers and accounts.
4. Investigation of proposed site as to charges, development status, services etc.
5. Application forms for loans from local Authority or National Housing Corporation.
6. By-laws for a 'standard-type' housing society.
7. Help in book-keeping and auditing.

(5) City Council and County Council can provide site and service schemes for this purpose in addition to granting loans.

They should then be well on the way to build at least one house for the money, which they initially collect. This is important, because not only is it this tangible result, which creates incentive, but the rent from it will add to the funds of the Society, and it will represent security for loans, which the Society may subsequently apply for.

As a matter of perseverance is also the principle of subscriptions to the Society. This is an over-riding problem, and even the two mentioned societies are falling short of the ideal solution in this respect. Once a member has paid his initial membership fee, he is, of course, a member. It will be expected of him that as a member he should subscribe shares in the society. The procedure may differ. Some committees may decide that in order to keep their membership all members must subscribe an equal number of shares or that members may subscribe as many shares as they like.(6) This is not so important. It is, however, important in case of Housing Societies that members develop a habit of subscription so that funds are continually generated from within the society, until their objective has been achieved. This procedure will benefit the members who - once they have been allocated a house - are compelled to make regular payments monthly.(7). This procedure will not benefit those, who are unable to make regular payments, but the society stands to gain from eliminating such members, either from the society as such or from qualifying for a house. Individual defaulters should of course be considered on the merit of the reason for defaulting, but to have a tough policy in this respect is the best way to encourage perseverance.

Integrity is the third of the more immediate problems. This is a deeply rooted human problem, but as far as co-operative societies are concerned the latest changes in legislation has been a long step in the right direction, which is to subject societies to stricter control. Unfortunately this seems the only way to do it at this stage of development. When it comes to financing of housing through co-operative societies, the loans, which to start with should be granted to them from public sources, must be safeguarded by the way they are released, namely, in step with the progress of the construction of the houses, which they are supposed to finance. Once the houses are built they in themselves represent the security.

Mismanagement of funds and societies have sometimes, but far from always, been due to lack of elementary knowledge of book-keeping etc. This can only be rectified by training of officers and committee members, and this is now being intensified.(8). Outright dishonesty and imprudence must of course carry preventive punishment.

(6) The cooperative principle, rightly or wrongly, requires 'one member one vote' regardless of shares held.

(7) Whether the payment should be a subsidised, an economic or a market rate is, of course, up to the committee, but for members an economic rent should be advocated. For non-members, a market rate seems justified (as for a discussion of two types of housing societies - see p.8)

(8) It is advocated that as in the case of Credit and Thrift Societies a special expert should be attached to the Co-operative Department

It could be argued that the real problem underlying the lack of success, so far, of cooperative housing societies in the low-income group is simply: low income, with the consequent low propensity to save. Facts from the field prove this argument wrong. The two societies mentioned are formed by some of the poorest people in the Nairobi area, the illegal squatters. Though many of them will claim un-employment most of the year, they still admit that they would be able to afford Shs.50/- to Shs.75/- a month for housing. Their performance bears them out on this. In the case of the Gilomba Housing Society, 50 members have been able to build 4 houses of Shs.15,000/- each = 60,000/- over a period of two years.(9).

In spite of the fact that they are paying Shs.30/- a month to the City Council for a plot, which each of them hold - and paying for accommodations elsewhere - This may indicate that they are not so poor after all, and may have given us the wrong information about their income, but this is not likely to be true, in that also the members of the other society were able to pledge the same amount of money per month with the only difference that they are not paying plot-rent at present.

In connection with the Gikomba Society it has been seriously questioned whether it was in fact qualifying as a true co-operative society, when it built houses for non-members. As mentioned the C.C. which has indicated its willingness to grant a loan to the society will insist that a member occupies at least part (1/3) of the house. One solution to this problem has already been advanced, namely that they make tenants members by asking them to pay membership fees. This, however, presents a new problem, because these 'tenant members' will differ from 'original members' in that they cannot claim ownership to a house (not owning a plot and not having made regular payments). Therefore, it should be recognised that there are at least two kinds of Housing Societies: one with the purpose of providing housing for members and one with the purpose of just producing houses. The latter is similar to any 'production cooperative' such as a dairy or transport co-operative, and should be treated as such.

Problems, Solutions and Prospects, long-term:

The interest in and the organization of Housing Co-operative Societies should increase with time, when the short term problems have been dealt with and societies show success. Likewise the need and demand for housing will be with us for many years to come and is likely to grow if anything. Even the desire and the ability to save for housing can be expected to increase as incomes grow and people become more aware of the advantages of better housing. Therefore the major longer term problem will be in the field of outside financing. By outside financing is meant any financing which is obtained outside the society itself.

(9) It is true that the society was formed more than two years ago but the number of members was smaller in the beginning and did not reach 50 until July of 1966.

Up till now the question of outside finance has only been problematic in the instance of the Gikomba society. But this society, which is the type to be promoted, has had problems enough to cope with in this respect for two years until the situation now seems fairly clear. What should the procedure be, when a Society wants to apply for a loan from the National Housing Corporation, which is, at present, the obvious body to support low-cost housing through co-operatives? Except for administrative reasons there is hardly a case for channelling funds from N.H.C. through local authorities in order to get them to Housing Societies, and it does seem contrary to development objectives that if local authorities serve as middle-men that they should relend funds from N.H.C. on poorer terms than is normal for local authority schemes. (10).

The fact that the N.H.C. has been making a profit over the past many years indicates that it could well afford to take additional risks, i.e. not having to seek guarantees from local authorities in addition to the security of the houses of the society. Also there is hardly a shortage of funds, since one finds deposits with the Cereals and Sugar Finance Corporation to the extent of Shs.1,6 million at 4% interest (which could just as well have been gaining 6% and doing more direct good being deposited in a Building Society such as the East African Building Society, which as opposed to one of its competitors, is not yet receiving public funds on deposit). But this is a matter for discussion in a subsequent paper. Even if there were a shortage of funds, the scarce funds being allocated could hardly comply better with the policy of low-cost housing than to be used for assisting the co-operative housing societies.

Once the Co-operative Bank is functioning, it does appear to be the best suited institution to administer funds from the N.H.C. apart from being a new and important source of finance itself. Though the Bank is proposed to be in operation this year, it is still not to be counted on as a short term solution to the problem of financing. First of all because it takes time to organize it and mobilize funds, and secondly because the rate of growth in the housing societies is likely not to exceed the lending power of the N.H.C. for a couple of years yet.

If, unlike the Gikomba Society, a new housing society does not want to start construction until they have collected a target sum of money (for reasons such as cost-reduction by construction of several houses at a time) it should be possible for them to deposit their savings in The Co-operative Bank not only at 6% interest, but also with a guarantee from the bank of being able to borrow a certain relative sum at a later stage. The guarantee may ultimately have to be undertaken by the Government through the N.H.C. or by instructing the Central Bank to grant re-discount facilities for such loans (being secured by a first mortgage in the resulting houses). (11) Further, on the services of a Co-operative Bank, it should be expected that the bank in its close ties with the existing

(10) The C.C. charges 7% interest and requires payment in 10 years instead of 6½% over 30 years. For a loan of Shs. 200,000/- it means Shs.271/- more a month, or an increase of 11% which by itself may render the scheme non-viable.

commercial banks, such as is anticipated, should be able to persuade these to create overdraft facilities for housing societies while construction is under way, subject to the final loan arrangement being made with the Co-operative Bank, and to the plans and progress of the houses being approved beforehand.

Returning to the long term prospects of the two kinds of co-operative housing societies, one building for members only at reduced rents, and one building for non-members at market rents.

There is no doubt that the latter has the highest potential for capital formation because by charging a market rent it will have a much lower capital output ratio enabling it to either reinvest in the construction of more houses or to consolidate the society and increase the dividends. This same arrangement raises the problem of tenancy or ownership. Dealing with a co-operative society rather than a public body it is infinitely more difficult to dictate a policy. So even though the above argument is in favour of tenancy the policy may still favour ownership. (12)

A solution could be along the lines of accepting for loans from public sources (including the Co-operative Bank) only societies which would be prepared to issue individual title to each house, so that in case the society defaults, not all of the tenant purchasers would have to be evicted, but the house or houses could be sold individually according to the creditors' choice. It also gives the tenant purchaser the right to sell the house at any time. In case of a block of flats, on the other hand, much speaks in favour of a society ownership or permanent tenancy. First of all the low-cost flats especially have proven hard to maintain due to economic as well as organisational problems. Secondly, the Building Society Act does not permit loans to be given to individuals on the basis of shares or part-ownership in a house. Thirdly, it is much easier to find a potential buyer for a block of flats, when these are collectively owned than when they are owned individually.

There is no reason why in the long run the housing cooperative societies consisting of members with ownership of their individual houses should not pool their properties as security for additional finance in order to build more houses for new members. This leads us to the formation of Co-operative Loan Societies, (13) which is treated in a separate paper.

(12) For social and other reasons, which is outlined in my policy paper 'Financing of Housing in Kenya - some major issues'.

(13) Credit societies is another name, where as 'Co-operative Loan Association' which is the title of a previous paper deals with a somewhat more advanced system of co-operative financing effort.

	Members	Registered	Membership	Share Cap. Shs.	No. of House Cots/Unit Units	Remarks
obangi Housing & Settlement C.S.	African	19.6.65	400	22,000	104	
adi Standing Housing C.S.	-	26.1.66	37		0	Deregistered
a Housing C.S.	-	26.1.66		(19,000)	0	Officer ran away with money
ba Housing C.S.	-	17.3.65	50	60,000	4	
re Housing C.S.	-	4.12.62	31	1,205	0	In liquidation
ia (Meru) Housing C.S.	?	5.2.64	Over 50		About 5 10,000	
tiya Housing C.S.	Muslim	19.9.56	139	69,500	0	
num Housing C.S.	Ismalia	12.9.57	112	2,240	104	
ia Highridge Housing C.S.	-	4.5.60	98	2,000		
ia Parklands Housing C.S.	-	4.5.60	61	1,220		
ee (Mombasa) Building C.S.	-	26.11.48				
oi Muslim Housing C.S.	Muslim	28.5.58	30	1,050,040		
Ismaaliala Housing C.S.	Ismalia	31.5.60				
Muslim Housing C.S.	Muslim	25.7.63				