

**EMPLOYER PROVIDED HOUSING IN KENYA
CASE STUDIES OF SELECTED
ORGANIZATIONS**

BY

JOHN MANO CHOKA

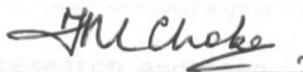
**A Thesis presented in partial fulfilment
for the degree of Master of Arts in
Housing Administration in the
Department of Architecture, Design and
Development at the University
of Nairobi.**

NAIROBI

1987

DECLARATION

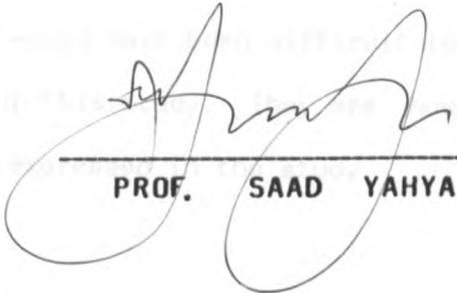
I, JOHN MANO CHOKA, hereby declare that
this thesis is my original work and
has not been presented for a degree
in any other University.



SIGNED

DECLARATION OF THE SUPERVISORS

This thesis has been submitted for
examination with my approval as
University Supervisor(s)



PROF. SAAD YAHYA

A C K N O W L E D G E M E N T S

I am indebted to many people at the University of Nairobi, Ministry of Lands and Housing, Housing Department of Kenya Government and outside for their help in carrying out this study.

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A B S T R A C T

This thesis constitutes a study of Housing funding resulting from employer/employee relations in selected organizations in Kenya.

The study is developed from the problem that despite the availability of government funds, external foreign funds, and funds by private financial institutions in our economic system, there exists an increasingly acute housing shortage in Kenya and particularly in major urban centres for employees. This study therefore set out to investigate the modes of housing provided by employers and how effective the systems have been in providing decent housing to employees. It has examined the effective housing mode provided against the background of the economic conditions prevalent in Kenya.

The study also looked at rental housing provided by employer, house allowances, funds for house purchase, ownership/owner occupier house allowance and leasing of houses from the market. The study has investigated how the existing employer housing policy has contributed to the present housing stock in Kenya.

There are three parts to the study: The first section consists of introductory chapters covering general introduction of the study and reviews of the related literature on existing employer housing funding and the general existing types of housing funding and project management in general.

The second part consists of three chapters with case studies. These consist of analysis of survey information on each organization under study.

The last part of the thesis consists of one chapter. The chapter provides a summary of the recommendations and conclusions. The conclusions are based on concepts defined in section one and findings in the survey. Here we discussed the direction in which funding for employee housing should take. It is considered that employer housing is a crucial contribution to the alleviation of the acute housing shortage experienced in Kenya.

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CHAPTER 1
INTRODUCTION

Problem Statement

Housing provision for the rapid increasing population in both urban and rural areas is a major concern for the Kenya Government. At the end of the century, Kenya will have a population of about 35,000,000 people, i.e. 78% more than that, that lived in Kenya in 1984¹. And according to the 1983 Urban Housing Survey, housing needs are projected at 269,218, 117,652 and 643,387 between the years 1983-1988, 1989-1990 and 1991-2000 respectively. The greatest housing need is found in Nairobi where 114,550 (42.6%) housing units will be required by 1988, followed by Kisumu at 18,433² units. This shortage is evidenced by increase in the construction of illegal settlements and slums which are typified by congestion, insanitary conditions, inadequate community and infrastructure facilities and generally abject poverty. In areas with conventional houses, these are characterised by room sub-division and sharing of facilities due to low income levels compared with market rents.

This is particularly true in the low and middle income estates of Eastlands part of Nairobi, formally built for Africans by the colonial government. A look at the property column for houses to let in local Daily Newspapers is characterised by tenants looking for someone to share accommodation on shared payment of rent for a single house intended for one family.

Housing problems in both developed and developing countries vary in nature and magnitude. Most of these countries have therefore resorted to external borrowing from developed countries as an alternative source of financing housing development especially in urban centres. In Kenya, despite the continued borrowing, an acute housing shortage continues to be experienced in most of the urban and rural areas. Availability of funds is the most central factor in the rate of development of housing in any country committed to improvement of housing standards. Inadequacy of funds and mismanagement of the same has often been cited by Kenya Government officials as reasons for delay in implementation of various housing projects. At a meeting held at the Kenya Institute of Administration attended by the following heads of departments:-

- 1) National Housing Corporation.
- 2) National Construction Corporation
(Under Receivership)
- 3) Housing Finance Company of Kenya.
- 4) The then Ministry of Works, Housing and
Physical Planning (Technical Department)
examined some constraints facing the
housing sector.

The participants reviewed problems which have caused delay in projects resulting in high financial losses to the Government. The participants emphasised that closer co-ordination between those involved in the projects was necessary. At the same seminar Hon. Matiba, then Minister for Works, Housing and Physical Planning had this to say about the National Construction Corporation: "National Construction Corporation, is in the intensive care unit and we hope it will come out alive." The Corporation was formed to indigenise the construction industry, but the methods it employed were tricky" said Hon. Matiba. The Corporation lacked manpower, both technical and managerial. The Corporation has given finance to anybody who came around aspiring to be a contractor³.

Since the inception of our housing policy there has been a continued disparity between housing units planned to be provided by the Kenya Government and the actual output. Lack of funds or capital has been cited as the major cause of the disparity.

In 1977 the Ministry of Finance estimated that Kenya needed 80,000⁴ housing units in the urban areas to cater for the increasing population caused by both rural-urban migration and high birth rate. Government's efforts to meet this shortfall in subsequent years has fallen far short of expectation. In 1974/78 Development Plan, the Kenya Government planned to provide 100,000 units but the actual output was 9,000 units. This

gave a disparity of about 91,000 units. Inadequate funds and general inflationary trends in global economic order were cited at the time as the main reason for the disparity. It should however be noted that even if this level of production was realized it would have only produced 20,000 units per annum which represents 25% of the annual requirements⁵. The above situation remains basically the same in the present Kenya. Funding of housing projects continues to remain a major constraint in the provision of housing in both rural and urban areas.

During the 1979-1983 Development Plan Period housing need was estimated at 290,000 housing units in urban areas. The estimate included a current shortfall of 140,000 units and a requirement of 30,000 p.a. to cater for the expected increase in households between 1978 and 1983. In addition, 125,000 units need to be constructed each year to replace existing houses which are beyond repair. The total estimated requirement in the rural areas during the plan period was 1,075,000 housing units⁶.

During the current Development Plan Period 1984/88 the government recently estimated housing needs at over 290,000 units per annum. This is estimated at a cost of Kshs.22 billion, the Editor of the Nation Newspaper had this to say about the cost, "It is rather a gigantic task which may call for the demolition of some financial and other structures we are used to in order to lay down a much

more solid foundation, and we hope the effort by all involved will ensure Kenyans get an opportunity to live a decent life⁷."

To confront this housing problems the 1984/88 Development Plan has put emphasis on mobilization and management of domestic resources for equitable development.

The prime objective of the Kenya Government housing policy is more towards a solution where every family in Kenya will live in a decent house whether privately or state sponsored, which provides at least the basic standards of health, privacy and security. The Kenya Government has therefore stated in the development plan i.e. the employer is to participate in provision of housing to employees as a contributor in the private sector. In the subsequent plans more emphasis is put on participation of employers and private sector in general provision of residential housing than before. This therefore calls for further analysis and study of employment relationship as a policy tool in alleviation of the existing physical housing inadequacy, overcrowding and excessive rent burden in major urban centres.

For a long time there still exist disparity not only in expected number of housing units and actual numbers constructed but also the actual funds voted and expended within a given plan period is less as compared to actual estimates on housing.

This has been the trend for the three of the last five years, i.e. 1982/83, 1984/85, 1985/86 though there continues to be an increasing acute shortage of housing in Kenya.

In this case, despite the availability of funds, not all money voted for the housing project had actually been expended as planned or budgeted (See table No. 1).

Table 1 :

Relation between funds approved and actually expended over a financial year during Development Plan 1983/88.

Year	K£ (M)		Approved Expenditure as % of Development Expenditure
	Approved	Actual	
1982/83	10.13	5.07	3.7 //
1983/84	6.35	6.85	3.3
1984/85	12.65	12.02	3.6
1985/86	9.03	8.46	3.3
1986/87	8.41	8.46	2.2

Source: Economic Survey 1987.

Residential housing development during the Development Plan Period 1984/88 upto date by both private and public sectors total to 8,994 units only. The present estimated requirement for Kenya p.a. is 290,000 units. However, only 8,994 units have been completed and this is only 0.007% of the total National requirement. (See tables 2, 3 and 4) for both public and private sectors.

Table 2 :

Residential houses completed by the public sector as per each province in Kenya.

Province	1983	1984	1985	1986
Nairobi	-	284	-	-
Coast	50	13	50	-
North Eastern	-	-	-	-
Eastern	98	2	-	-
Central	187	-	45	253
Rift Valley	307	199	745	95
Nyanza	-	1900	169	116
Western	50	-	-	152
Total	687	2398	1009	615
Site and Service	598	2099	882	276

Source: National Housing Corporation.

Table 3 :

Residential houses completed in the private sector as per each financial year.

Year	Number of Residential Houses	Kenya £ (M)
1983	981	15.46
1984	646	10.00
1985	578	10.66
1986	911	15.66
Total	3,116	51.78

Source: Economic Survey 1987

Table 4:

Residential houses completed in the public sector per each financial year.

Year	Number of Residential Houses	Kenya £ (M)
1983	720	9.05
1984	252	16.73
1985	116	0.33
1986	31	0.24
Total	1,119	26.35

Source: Economic Survey 1987

The President of the Republic of Kenya, His Excellency Daniel I. arap Moi, on opening the 10th Commemorative Session of the United Nations Commission for Human Settlements at Gigiri (Nairobi), was in grips with the truth of Kenya's housing problems when he said : "...All well planned housing and infrastructure of reasonable standards and at affordable standards and cost when combined, is essential for development and for human health". The President went further and told the delegates that it was regretable that despite the recognition of the social economic importance of housing, the shelter situation all over the world was inadequate and much so in developing countries⁹. Kenya is among the developing countries of the world experiencing an acute housing shortage.

This study therefore looks at the employer as an indispensable participant in housing development in this country, because the social economic benefits resulting from a well housed employee will accrue to him in terms increased profits.

Hypothesis

Inadequate cheap sources of funds for housing development is a major constraint in provision of employer housing in Kenya.

The Study Assumptions

- 1) Provision of housing by employer is crucial in the alleviation of present housing shortage in Kenya. Often

housing provided by the Central Government for low income groups are not occupied by the target group, but mainly by the higher income groups.

- 2) The author believes that appropriate and workable legislation is possible to make it mandatory for employers to provide housing for their staff of all categories.
- 3) The Central Government would concentrate its effort on the provision of housing for low income groups and generally on slum clearance and upgrading of settlements and providing for its own employees.
- 4) Low income workers if not assisted by the government or their employers cannot afford conventional housing.

The Scope of the Study

- 1) The study will be limited to the funding problems for housing development of selected case studies of commercial, industrial, banking, insurance and public administrative organizations.
- 2) The study will examine some of the selected projects recently undertaken by the organizations if any.
- 3) Houses developed will be for the staff of the organizations (Housing solely developed for the staff).

- 4) The study will examine the various modes of housing provided by employers.
- 5) The study will examine the efforts of the organizations in the past and present in the provision of housing for their employees.
- 6) The subject discussed is not finance but housing financing.

The Study Objectives

- 1) To look at the various modes of housing available for employees in general and determine how effective each employer has used any one of them to house their employees.
- 2) To determine how effective each of the selected organizations has housed their employees.
- 3) The researcher will assess the various housing systems and come out with a system considered ideal.
- 4) The researcher will make recommendations and conclusions on housing finance for housing development within private and public organizations as employers and provision of housing in Kenya generally, and also give recommendations on new sources of finance.

The Importance of the Study

- 1) The study will go a long way in identifying some of the major funding problems associated with employee housing in Kenya and therefore contribute to the solution of providing adequate decent housing for Kenyans.
- 2) As inflation continues to eat into externally borrowed funds, and with the problem of devaluation of the Kenya shilling from time to time, a study of this nature will help the government in identifying alternative sources of funds and methods for housing development.
- 3) The study will immensely contribute to the rapid economic development desired by the Kenya Government by the improvement of the housing conditions of the workers or employers.
- 4) The study will augment existing research findings and solutions advanced for increased provision of housing in developing countries in their endeavour to solve mounting housing problems facing third world countries.

Research Methodology

Both secondary and primary data sources are used in the study. Documented research data has been collected from various libraries in the country especially the University of Nairobi library which provided major sources of data. Documents from the Ministries of Works, Housing and Physical Planning, Local Government, Planning

and Regional Development, Finance, Parastatal Organizations and City Commission have been important sources of secondary data.

Actual field surveys of projects and personal interviews carried out with various personalities in the Kenyan Government Ministries and the relevant organizations under study form valuable sources of primary data.

Definition of Operational Terms

Terms may have different meanings within different fields and circumstances. It is therefore imperative that we define terms we are going to use in this study. These are as follows:-

Housing :

There appears to be no general consensus on the meaning of the term "Housing". Housing has been given the following meaning by various bodies of United Nations Organizations: (UNO) It is the residential environment neighbourhood, micro-district or the physical structure that mankind uses for shelter and the environs of that structure, including all necessary services, facilities, equipment and devices needed for the physical health and social well-being of the family and the individual¹⁰.

In 1962 the Economic and Social Council of United Nations (ESCUN) stated that "Housing" is not "Shelter" or household facilities alone, but comprises a number of facilities, services and utilities which links the individual and his family to the

community and the community to the region in which it grows and progresses¹¹. In 1970 another Ad Hoc Expert Group on Social Programming of housing in urban areas concluded that in the fulfilment of social needs, housing plays a direct and indirect role, and both roles are decisive.

In direct role, housing serves as the area where the individual becomes capable of experiencing community and private social well-being and shelter and protection against hostile physical forces and disturbance. In its indirect role, housing serves as the area where an abundant supply of social intercourse, education, recreation, sports, social welfare and health protecting services, shopping and transportation¹².

In 1975 at an Inter-Regional Seminar on the Social Aspects of Housing, it was defined to mean more than the physical shell. Housing encompasses all the ancillary services and community facilities which are necessary to human well-being. Therefore, community facilities, social amenities and services form an integral part of the housing concept and should receive equal or greater attention than the housing unit itself¹³.

For the purpose of this study, housing (Shelter) is a basic human need like food or clothing and to treat it otherwise would be a great injustice to mankind. The importance of housing is what it does rather than what it is¹⁴.

Tenant Purchase : (Tenancy with option to buy)

Once a tenant has accumulated enough resources or made specific number of payments he or she becomes the owner of the house.

The system gives the tenant the hope to own the house and hence is encouraged to take proper care of the house in terms of maintenance and repairs.

Land Development Costs:

The costs of making virgin land ready for development through provision of utilities services accesses etc.

Proper Management:

Will mean planning ahead, making choices, deciding how to attain selected ends and setting standards and controlling the finance and administration of the project.

Housing Scheme:

The housing act defines a scheme as a proposal for construction of several approved dwellings including such other proposals as may be necessary or desirable or incidental there to by way of provision of roads, drains, open space, places of worship, places of recreation, facilities for social welfare and trading, the acquisition, layout, sub-division and development of land comprised within the area of the scheme.

Housing Delivery:

Production, allocation of housing unit and services that go with the unit.

Housing Finance:

A term that covers financing at all stages in the development and

sale of housing from land purchase to construction,
installation of on-site infrastructure and mortgage credit.

Some stages such as construction require short term loans.
Others such as mortgage financing are long term.

Mortgage Loan:

A loan in which property that is being purchased is pledged
as security for repayment. A clear title to the property is
necessary condition for obtaining a mortgage loan.

✓

FOOTNOTES

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CHAPTER 2

REVIEW OF RELATED LITERATURE

INTRODUCTION

Literature related to the study has been reviewed under the following sub-sections:-

- 1) Importance of housing
- 2) Employer housing for both developed and developing countries.
- 3) Sources of finance
- 4) Management of Projects.

Importance of Housing

Housing is both an economic and a social consumption good. Housing requires multi-dimensional human resources input to avail the same on the market. This ranges from the architect, engineer, quantity surveyor, developer, socialist planner, political government of the day and at times may involve a foreign housing funding agency or country.

In order to invest a large amount of funds and human resources in housing the need or importance of housing has to be demonstrated.

Morris L. Sweet and George Walters have this to say:

"Whatever the level of economic development construction (Not only housing) accounts for more than half the gross domestic fixed capital formation of which housing represents 20-50% and higher percentage can be found in less developed countries¹."

Thus, construction in economic terms is second only to agriculture in developing countries. In the industrialized countries

construction sector utilizes as much as 10-15% of total labour force. Housing, its infrastructure, and related community facilities account for 10 to 35% of total national investment in fixed capital. In Kenya, over 55,700 people were directly employed in the building industry in 1986. Housing is therefore justified on economic as well as social and political grounds.

Housing is a powerful tool in income distribution, and its direct correlation with individual productivity or performance at work both in the industry and office means that good home living conditions will result in higher income per capita for nations or companies that provide decent housing for their citizens. Investment in housing also tends to promote the development of building material industries.

Housing as an Industry

The role of housing in industrialized countries is well known and accepted. In the United States of America (USA) it is estimated that each dwelling unit provides between 2.5 and 3 man years of employment one man year on the job, one man year in the factories producing building materials and an additional 1 to 2 man years in related fields and in monetary terms. If one computes site improvements, services, materials, labour and furnishings, each 100,000 houses built in the United States (U.S.) add \$4.5 billion to the Gross national product².

Community Development
(Social Economic Development)

Decent housing increases social-economic stability in a community as opposed to social upheavals and crime prevalent in slum settlements. Improved environment fosters pride in community members, evokes a sense of belonging and increased participation in social welfare activities. Good housing is a symbol of economic and socio-political success in most Kenyan communities. It measures levels of acceptability and degree of success in the community.

Proper housing reflects urban growth and income distribution. Research carried by Professor Allan R. Holmberg on the role of housing in the development of community at Vicos in Peru form a very interesting study.

The study was carried on an Indian Community in Peru in 1952. Professor Allan R. Holmberg sought to induce social-economic advancement by using the existing institutions and leaders in the community. The school that had been shoddily built, poorly serviced and scarcely attended was replaced by a community built school, and new well qualified teachers were posted to the school. Clinical services provided twice a week reduced the incidence of illness, especially among infants and children.

Private land ownership replaced the traditional system of land tenure with the result that productivity increased by 600% in the

first year. Fifteen years later, the Professor observed that Viscos of Peru own two houses, one on the farm plot and one near the main road where something approaching an urban community was developing. Most of these houses were constructed in tile roofs plastered walls and wooden doors. As the quality of housing improved, it necessitated a substantial improvement and increase in household goods like furniture etc. raising the standard of living of the Indians³.

Here we see a community advancing from increased productivity by virtue of improved social welfare amenities. In Kenya Breweries Company seem to have appreciated this fact and at a seminar in Nairobi, Mr. Kenneth Matiba had this to say: "We have housed our employees not out of necessity but because it makes sound business sense in that it enhances productivity when the employees welfare is catered for⁴."

Housing and Worker Productivity

No studies have been done in Kenya to link productivity directly with housing. In the above case of Peru, an attempt has been made to link the well-being of the individual with productivity. Other studies have also been carried out in Korea. The problem of isolating and statistically analysing the impact of housing conditions on labour out-put is particularly known to Professor Burns who under the auspices of U.C.L.A.'s Real Estate Research Program and through co-operation with the Agency of

International Development attempted to reduce deficiencies in the previous work taken in linking productivity to improved housing.

Professor Burns sought to measure the impact on productivity derived from moving a small labour force from substandard to adequate housing. The results from this experiment have not been published⁵. Professor Lee O. Thayer on the other hand has made studies to show there is a direct and powerful relation between individuals physical environment and psychological perspective. He feels that nothing in man's physical environment is more important than his home. Infancy and childhood are generally spent in the house of one's family. Family pressures still remain the predominant socializing force experienced in the home environment. Man's dwelling is the psychological extension of himself and determines his concepts of himself. And the physical structure determines man's status in the community and his place among men. In Kenya, ownership of a home or a good house determines social acceptability in the various tribal societies. The physical features and facilities of the family dwelling space, light, sanitation, privacy, overcrowding and so forth may seem to form the boundaries or configuration of an individual's psychological ecology. A clustered and crowded environment will lead to a confused pattern of life.

Psychologically conditions commonly associated with inadequate housing are:-

- 1) Difficulty in positive identification of one self.
- 2) Utter rejection of idealism or optimism about life.

These conditions are likely to be passed to children from the disillusioned adults who surround them. Such attitudes and philosophies of adults determine their behaviour. The bitterness of parent becomes the bitterness of children. A sense of industry, competence and adequacy cannot develop among such children. Later in life the problem becomes one of identity.

Thayer's conclusions are, that the slum housing conditions arrest development of skills or attitudes deemed necessary for accelerated of social-economic advancement. A slum dweller will therefore be denied an opportunity to realize ("Self actualization") his potential⁶.

Therefore there is normally a considerable increase in the outflow of social services. Hence, clearance of slums or provision of adequate housing will be rewarded with increased aspiration, and increased productivity more than sufficient to justify initial capital outlay. In Kenya, the poor housing in slum areas has resulted in increased crime, insanitation, poverty stricken conditions which make a heavy claim on National Budget in terms of crime control and medical care.

Housing therefore possesses a motivating property of considerable dimension and the opportunity to improve on the home will induce

greater efforts and productivity on the part of the owner. The Japanese high advancement in technology has been associated with the high quality of housing provided by the employer.

Housing and Related Industries

The Housing Programmes can be used as means of distribution of income through putting local labour and materials to work and so raising the standards of living not only in housing but also in food and other essentials for the well-being of the employee and other citizens of a country in general.

In particular:-

- 1) Housing construction will encourage the development of materials in the construction industry.
- 2) Housing development encourages savings and maximum use of capital resources in the construction industry throughout the year instead of living it idle for the part of the year.
- 3) Housing development encourages other developments involved in site development, e.g. provision of roads, electricity, telephones etc.
- 4) Other industries like furniture making, metal works, blocks quarrying will come into existence with the encouragement of housing development.

Employer Housing in Development and Developing Countries

Employee housing is not a recent phenomenon but is a practice that has been going on for a long time in some of the most advanced and developing countries in an endeavour to alleviate housing problems for their people. This section of the literature review explores how other countries have exploited employment relations in the provision of housing development.

France

In France, a system of mandatory contributions by employers based on wages and salary payments to be utilized for construction of housing has been going on since 1945. France for many years has been a head of such countries like United States, Britain, and West Germany as well as all Eastern Europe in respect to construction of new residential housing units in relation to population. From 1945 to 1958, an average of 128,000 new housing units were completed annually and by 1960 the figure reached 295,000 units swelling to 540,000 units in 1972⁷. Before France initiated the employer Mandatory Contribution to employee housing, there was a severe shortage of housing and on average housing stock was in poorer condition than any other Western European Countries⁸.

Japan

On the other hand in Japan, the practice of housing employees is as old as the times of slave trade. Provision of employee housing in Japan was started as a means of carrying out forced labour for

profit. In 1900 when the textile industry began to cultivate overseas market imported spinning machines were kept in operation for long hours by vast army of wage factory girls from poor families in the remote villages who were forced to live in dormitories similar to detention houses from which they were unable to escape. However, despite this early beginning, Japanese lag behind other developed countries in respect to adequate supply of housing.

During the second World War, Tokyo lost over 40% i.e. 2,000,000 housing units in the bombing⁹. Despite the great loss the Japanese government housing policy has allocated a minor role to public housing and instead depend on private individual houses and employer provided housing. Japanese organizations offer its workers housing, extensive ensuite recreational facilities and life time employment. The Japan technological advancement is attributed to employee commitment to organization which he looks at to provide for his total life's needs. The Japanese managers believe in total concern for the welfare of the employee and not just for his work performance. They are convinced that this concern is essential to attaining increased productivity and high quality standards products. Japan's employer provided housing is however, more than a matter of policy, it is a philosophy for the people.

Italy

In Italy employee housing emerged in 1950 as a means of solving the acute unemployment by building houses to alleviate the shortage brought by the second world war. INACASA (the institution involved in housing financing) relied on its income from taxes levied on wages. Workers contributed 1.2% of total wages, then the government added 4.3% of the total yield of employer and employee contribution plus a subsidy of 3.2% for 25 years of the cost of each dwelling. A considerable portion of the state's contribution was paid in the 7 years advances to facilitate construction. The rents from the completed dwellings then went into a revolving fund to be used for further construction¹⁰.

In France the employer provides the funds but in the case of Italy the employer, employee and the government provided the funds. In both cases cheap funds are made available for the employee to acquire a house at a relatively low interest rate than that found in the private sector financial institutions.

Spain

Spain on the other hand realized earlier than France the necessity of involving employers in housing provision hence enacted laws to enforce the same. All firms or organizations of industrial, commercial, banking and public administration with over 50 employees were obliged to build houses. In 1968 an act of parliament compelled organizations with over 50 employees to

building dwellings for their staff or as an alternative grant loans for the acquisition of houses. Most firms preferred to extend loans rather than become involved in housing construction. The loans come from a revolving fund and has to be invested in housing as a must. The growing mobility of employees has led to greater consideration, by the government in opting for more rental houses as opposed to house ownership¹¹.

Brazil

On the other hand Brazil a developing country has since 1960 been an innovator of housing finance systems, with a decline in the use of traditional mortgage credit systems and a creation of new national entities and institutions which uses funds from social security contributions for housing development¹².

In less than 3 years after launching of the National Housing Bank, over 500,000 housing units were constructed, this compared to 154,000 for over 28 years is a worthwhile achievement. In its first 9 years Brazil National Bank financed the building of 1,000,000 units¹³.

Mexico (Infonavit)

In Mexico the federal political constitution of 1917 states that workers are entitled to decent housing and on this basis labour legislation was enacted that obliged employers to provide housing under certain conditions. An institute of National Housing Fund (NHF) for workers was set up in 1972. This is a banking organization. Its resources come from the 5% payroll deduction on employers and another 5% from employee wages. The initial operations of the bank were financed by an interest free loan from the government. Though the government as an employer also makes deductions from her payroll to contribute to the bank.

In three years time, the institution involved in housing had 4 million employees enrolled in the programme and 44,000 had received benefits directly. The housing financing institution had financed the construction of 51,196 housing units in less than three years period after its inauguration¹⁴. This was a great accomplishment as compared to the previous performance.

Chile, Yugoslavia, Romania have also carried out extensive housing development under the employee-employer relations by wage deductions to central body or bank.

Kenya

In Kenya, varied efforts have been made by various organizations in housing provision to employees. A look at Kenya's history in housing employees brings out two clear pictures.

Colonial Period (1896-1963)

Kenya became a British Protectorate in 1895. After the construction of Uganda Railway was completed in 1904, the white settlers followed on to exploit the rich soils of East Africa. The whites planted varied commercial crops like wheat, sisal, maize, coffee, tea and pyrethrum. These farms required labour because by then there were no machines to operate on them therefore Africans were forced into working for the settlers. For housing, the white farmer took the responsibility to house the natives in labour line far away from his residence. These labour lines were single rooms grass thatched and without water or sanitary facilities. The rooms were characterised by sharing.

Meanwhile as the colonial farmers advanced into the interior of Kenya they established centres along the railway lines which served as commercial centres. Mombasa, Nairobi, Nakuru, Eldoret, Kitale were some of the major centres that came into existence. By the year 1925 it is recorded that Kenya had over 125,000 registered wage earners of which 75% worked on the farms and 25% worked in one of the urban centres. By 1950 the number had increased to 400,000 of which 33% worked on the farms and the rest in modern industrial sector¹⁵. It is the later group that the study is concerned with.

During this colonial period it was the responsibility of the employer to provide housing to employees, however, there was no machinery to ensure the same was carried out. In 1939 there

was no machinery to ensure the same was carried out. In 1939 there were a series of strikes in Mombasa as a result of poor housing.

The colonial government then set up William Commission to look into among other things, the labour conditions in towns. The commission singled out housing as a major ground for discontent among workers. As a result Mombasa Municipal Board and Nairobi were asked to put up houses for workers of small employers. Another report carried out in Nairobi in 1941 by the Municipal Native Affairs Officer and Senior Medical Officer of Health reported to Nairobi Municipality that over 6,000 African employees were without houses¹⁶. The report called for stricter enforcement of legal obligation for employers to house the employees. Local Authorities were also to be encouraged to develop houses for the public.

A survey carried in 1953 at the advance of Kenya's war of independence (Mau mau) showed that only 35% of employees were housed by employers¹⁷.

Meanwhile after the 1942 report above, the government set up the central housing board. This marked the provision of public rental housing in Kenya. This assisted greatly in alleviation of employee housing in urban areas. The following developments were carried out after the 1942 report:-

Nairobi Municipal Board built	-	1,200	units
Mombasa Municipal Board built	-	2,000	units
The central Kenya Government	-	7,710	units

and these were mainly in single rooms¹⁸.

At the dawn of independence Kenya was still experiencing an acute housing shortage. The United Nations experts in housing were requested by the Kenya Government to study the housing situation in both social and economic terms. This study forms the major Kenyan housing policy which was concretised in Sessional Paper No. 5 of 1965/66 on National Housing Policy.

Independent Kenya 1963-1988

The United Nations experts recommended the establishment of National Housing Corporation (NHC). In 1967 National Housing Corporation was set up as the major body in execution of public housing policy. Funds for the corporation came from parliamentary budgetary allocations and external loans from other agencies or countries interested in assisting in housing development. The corporation and local authority became the major organizations for provision of housing in Kenya. The employer was no longer obliged to provide a house for the employee. The Lawrence Bloomberg and Charles Abrahams Commissions in parts recommended that even the Kenya Government should divest itself from housing her own employees¹⁹.

Later the Housing Finance Company of Kenya was set up to provide loans in the private sector for both middle income and high income groups at a commercial interest rate. Though the two organizations have carried out several projects since their formation Kenya still experiences an acute shortage of housing. At this point we see

the independent African Government on the recommendation of United Nations experts starting to divest itself from providing employees with houses.

In 1963 over 44% of employees lived in employer provided houses. However, it cannot be said it is true today because in 1970 the federation of employers decided to bring to an end the provision of workers housing²⁰. This has meant that less and less housing is provided on the market. This is manifested in high rents sharing and overcrowding in most of our major urban centres. The employer has preferred to give what they call "reasonable allowance" to rent a house from the housing market. Very often the houses are non-existent. It is like telling someone to buy food in the heart of a desert where there is no food.

Sources of Finance

As seen in the previous discussion, finance mobilization machinery has been central to the success of employer provided housing in the countries discussed. It is imperative to have a look at some of the financial systems in Kenya open to the employer and employees for financing housing development.

Finance is central in most economic ventures. Harry A. Goleman has this to say, No single factor in building development process is more fundamental than financing²¹. Finance determines what, where, when and how the building or the project will be accomplished. Planning of a project cannot be effectively done without stable source of finance or capital. As a result, a clear understanding of the precise role and methods of financing real estate development is critical for all those involved in the process or any of its phases at individual, organizational or National level.

A sound financial base or source is a firm foundation for laying a sound housing policy and the implementation of the same. Availability of funds or reliability of the source will enable the planner to plan specific units to be constructed within a given period. Otherwise plans will be set up without financial basis and hence would fail to be realized.

In order to fully appreciate the critical role of real estate funding throughout the development sequence it is appropriate

first to identify the principal steps in the development process and to relate each of these from conception through to completion to the sources and types of financing which may be used. (Please see table 5). In financing each of the stages the developer will require both long and short term finance.

In Kenya, funds for housing development are:-

- 1) Externally acquired from developed countries or
- 2) Raised from domestic resources.

External Funds

External funding depends on one country willing to borrow or to incur debt and the other willing to lend. Repayments and the debts are normally done in hard foreign exchange in most developing countries. One of the common forms of funding is called the "Seed Capital". The purpose of seed capital is to provide an institution during its formative stages with capital necessary to establish a sound financial base for its continuing operation. The term also derives from the assumption that pilot programmes. Seed capital is therefore of little value unless it regenerates and multiplies.

It is also believed that external borrowing has a tendency to place a heavy burden on agricultural sector which provides commodities for earning foreign exchange for the repayment of the loans. When interest and insurance costs are added on

		Financing	Sources
1.	Predevelopment Planning Land Options/deposits Professional Services Market Analysis/Architectural Engineering	Seed Money/Equity	Developer Services Outside Participation
	Project Management	Overhead	Developer Resources
2.	<u>Development Planning/Design</u> Additional land options/Deposits Professional services Financial Architectural Engineer Legal	Seed Money/Equity	Developer Resources Developer Resources
	Project Management	Overhead	
3.	<u>Construction</u> Land Purchase Professional Services Architectural/Engineering Improvement Construction Site work/building	Equity/Surbordination Debit Construction/Interim funds	Developer/Participant Interim Lender Developer Resources

TABLE 5 cont.

Construction Management		Overhead	
4.	<u>Marketing</u> Leasing/Sales	Equity/Surbordination Debit Construction	Developer Participant Interim Lender
	Marketing Management	Overhead	Developer Resources
5.	<u>Completion/Delivery</u>	Equity/Surbordinate Debit Permanent Financing Overhead Fees	Developer Participant Permanent Lender/Developer Resource
	Construction/Marketing		
	Property Management		

Source: Financing Real Estate, by Harry A. Goleman

the initial loan, the cost to be carried by the borrowing country soars resulting in depletion of foreign exchange which could be used in importation of capital goods to be used in other sectors of the economy. Hence it hinders the general economic advancement of the borrowing country.

Housing provision by Kenya Government is limited mainly in urban centres. Here we observe a situation where rural areas produce the coffee/tea which earn the foreign exchange used to repay the loans which are spent in urban areas.

The high interest rates and devaluation of the Kenya shilling from time to time result in the loans being more expensive than originally anticipated. More coffee or tea is therefore required to acquire dollars to repay the loans than it was the case at the time the loan was acquired. (See Diagram 1 showing the flow of external funds for public use in Kenya). In recent times external donors have made attempts to channel funds directly through the private sector for housing development.

Domestic Financing

The bulk of investment funds for housing must be generated domestically out of local savings and government funds. Public domestic housing finance originates from:-

- 1) Normal tax and revenue schemes.
- 2) Local capital markets.

A design in mobilization of local sources for housing development is imperative in provision of housing, and a workable housing policy should be founded on solid local resources²².

Local Capital Markets

These sources will include savings and loan associations, or building societies, housing and credit co-operatives and security markets. Building Societies or Savings and Loans Associations have been successful in Latin America. Kenya has also several of these.

Since mid 1986 the banking system has been undergoing a serious tremour resulting in some banks closing down and the small savers loosing confidence in the overall banking system. The extend to which this has influenced housing development has not been quantified, but definitely, it has had a far reaching effect on saving for housing development.

Housing and credit to Co-operatives - These are a means of mobilizing saving for housing. Co-operative financing may consist of loans from insurance companies like in the case of India and other direct or indirect government assistance. In Kenya Insurance Companies have not participated noticeably in provision of loans for residential housing development to co-operatives.

An Overview of Housing Fund Flow (External Funding)

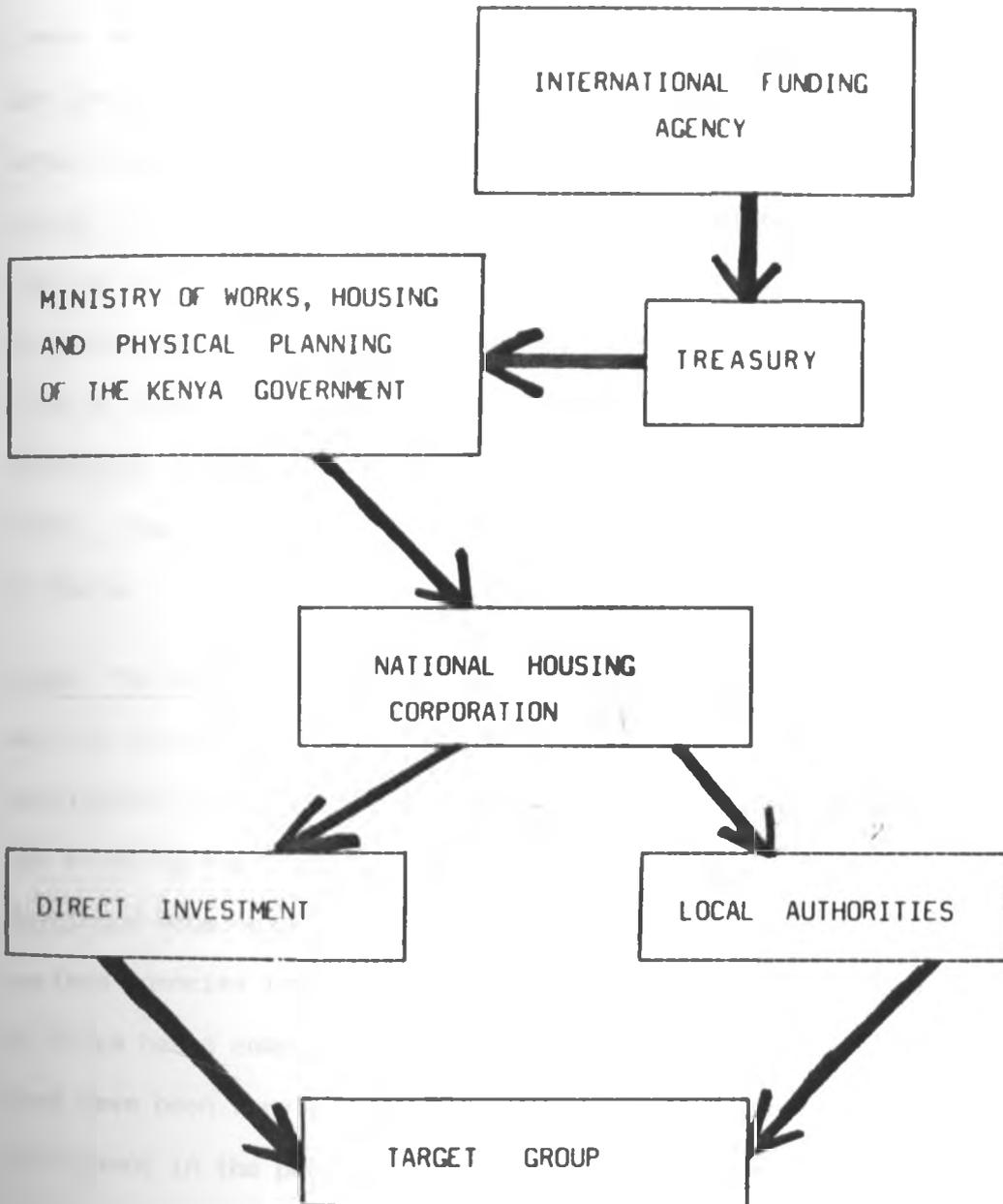


Diagram 1 :

The flow of funds from External Sources for Housing Development.

Source : Field Survey

The issue of guaranteed bonds: This can be used as a means of tapping savings on a voluntary basis of individuals and private institutions operating in the capital markets. The Kenya Posts and Telecommunications has made a concerted effort in collecting these savings through the Post Office Premium Bonds. Post Offices are in very close proximity to the small saver as compared to any other corporation in this country. The Post Office premium bonds could form a source of finance for housing development in Kenya. The New York State Urban Development Corporation is a success story in provision of securities. However, it should be noted that this type of funding system can only be done well in countries with well developed security markets. The Housing Finance Company of Kenya (HFCK) has also raised funds through bonds for housing developed in Kenya.

Normal Tax and Revenue Schemes: This depends on the government's ability to tax and collect revenue and avail the same for housing development. This will be constrained by government priority and the existing legislation and rules in the country. A well developed housing policy can help to channel these funds to the various agencies involved in housing development. The Republic of Kenya has a comprehensive consolidated housing budget and policy that have been very successful in rationalizing the nation's investment in the public sector.

National Housing Banks: In some countries National Housing Banks are set up so that both compulsory savings and government funds are deposited for lending for housing development. In Israel 35% of

housing is financed directly by government. Funds directly raised through the issue of a series of debentures, bonds and other securities which are purchased by government supervised insurance companies, pension funds and savings plans are used in housing development.

Compulsory Savings through Employers: A levy is imposed on private companies to contribute a certain percentage of the total amount of the payroll to be invested by the government in housing. In Brazil since 1967, 8% of payrolls from private companies is deducted and paid to the National Housing Bank for housing development. The Brazilian National Bank borrows at 5% from the guaranteed fund (Funda de Tempor do Service FIGS) that forms part of the social security fund system. These loans are then extended at similar concessional rate to state and local housing corporations (COHABIT). Some 120,000 houses per year are put on the market through this system in Brazil. Similarly in 1974 by virtue of compulsory contributions from the private sector work force the Philipines Social Security System cash inflow that were channelled to finance housing loans amounted to £ 968 million dollars²³. In Kenya this would be a favourable solution as a source of funding for housing development. The National Social Security Fund (N.S.S.F.) is near to this system of payroll deductions of employees for housing development.

For Kenya to achieve the 280,000 housing units per year more radical methods have to be implemented in mobilization of local funds and resources to alleviate the acute housing shortage particularly in urban centres.

Management of Housing Projects

Among the main tasks of management are specifications of the goals and objectives of the organization and to define realistic measures and standards of performance in the pursuit of the stated goals and objectives and to ensure the efficient allocation of resources towards the anticipated end. Management must also lead and motivate the members of the organization to produce the results for the achievement of the organizations goals and objectives²⁴.

As society becomes more complex and economic and social concerns grow more dynamic among nations throughout the world, public management has also become challenging. Consequently governments in various countries and several international organizations as well are continually searching for measures to make system of public administration adaptive and responsible to the changing and new demands²⁵. Kenya's social economic status has expanded drastically since independence about 25 years ago and calls for an overhaul of the systems we inherited at independence. At the end of the century, Kenya will have a population of about 35,000,000 that is 78% more than those that lived in Kenya in 1984.

Economic management has to be given more emphasis to be able to meet the needs of the rapidly increasing population. Increased productivity in government investment and services will go a long way in the achievement of the government's objectives and the policy of decently housing every Kenyan.

Efficient management of resources will ensure maximization of output²⁶. This is an important realization in the government economic planners in view of the limited economic resources of our Kenyan environment. Housing is a basic need and requires concerted effort in efficiently managing the resources to meet the needs of the rapidly increasing and structurally economically changing population at the close of the century.

According to recent figures Kenya requires more than 280,000 new housing units each year at Kshs.22 billion. As the Editor of the Nation Paper put it, it is a rather gigantic task which may call for the demolition of some financial and other structures we are used to in order to lay down a much more solid foundation and we hope the immensity of the problem will lead to an opportunity to live a decent life. A foundation of efficient management of resources is needed here, even if only 50% of the needs are to be met²⁷.

Funding real estate is a complex procedure or process as complex as the building and development activities to which it is directly related. Various funds are essential in the minimization of losses and time. It is of note that though the steps set in

table 5 give a good picture of the process of real estate development, it is over simplified. In the real world, the process is a more elaborate one. There are no nice beginnings and endings. For example some activities at the predevelopment planning stage may be carried out by the developers staff and hence avoid contracting for the services hence decreasing the cash outlay and the need for some capital at the beginning stages of development, even though some portion of these costs may be carried as part of the developers overhead expense budget.

The land for example may also be owned by the developer or some party may contribute on the development as part of equity interest in the venture. This again will reduce the end costs of the project. However, land purchase may be required therefore necessitating financing to complete acquisition on time for the start of the project. In case of public housing this may require compulsory purchase through the laid down legal machinery. This sometimes takes a long time before it is realized and may involve cumbersome litigation in the high court.

Internal Problems of Housing Agency

Many housing agencies and statutory bodies suffer from the use of outdated management methods resulting in higher cost to the beneficiaries or the payment of high subsidies by the government. Increased efficiency in administration may be therefore as

important as extended maturities or reduced construction costs in bringing down costs²⁸.

Introduction of planning and control mechanism such as the project evaluation and review technique (PERT) and critical path method (CPM). This is to ensure that projects are completed on time as planned.

The other organizational problems may include:-

- 1) Lack of adequately trained staff
- 2) High rate of personnel turnover.
- 3) Poor working relationship between internal departments.
- 4) Concentration of decision-making powers in a few hands.
- 5) Political interference in policy operations and staff matters.

Solutions to these problems in other countries have been:-

- 1) Provision of adequate training.
- 2) Establishment of Research Institutions in housing.

In Kenya, training opportunities in housing are provided at the University of Nairobi. Other remedies would include the provision of uniform administrative codes and practices and emphasis on management by objectives (M.B.O.).

Bottlenecks of an Inter-institutional nature may also impede progress in housing development. The New York Urban Development Authority, because of the power granted it by the state

legislature, has been able to cut through red tape and shorten the housing development lead time from initiation to construction start from between 3 to 7 years to 1 or 1½ years. It has achieved this by carrying out many activities simultaneously²⁹.

In the Republic of Korea a problem of too few officials is a constraint in efficient management of housing development. Given that, planning, production, marketing and administration of housing development is complex and it requires a manager who is technically trained and experienced, this may be difficult to come by and even to train because of the time taken.

Programming

Programming of a project is essential in the minimization of costs and scheduling the stages of housing development. A sound programme budget could be designed when proper programming is done and with the use of tools like PERT and CPM. Programming is essential in proper targeting of the group most in need. If lacking, it leads to cases like the National Housing Projects in Kericho, Kakamega and Kitale where though completed, took a long time to be occupied in spite of the existing acute housing shortage in the towns in question. In the case of carcass due to poor programming the agency went bankrupt.

Timing of Construction

The time for initiation of a project should take into consideration the seasonal fluctuations in the availability of resources for housing construction and climate. Project carried out during rainy season will delay because most of the construction activities are outdoor. The delay will make the project more costly. This is also true with fluctuations in capital market and labour force.

Timing of Payments to Contractors

A practice to pay contractors late results in inflated bids to cover their costs for waiting and borrowing at a high interest to carry on the work on the site. The situation can be avoided by ensuring that the borrowing agency has enough funds to keep the work on site going and ensure that funds are paid on time according to work progress.

In Kenya, cases of contractors absconding are common in most of our public housing projects. This has necessitated assignment of a new contractor resulting in loss of time and funds.

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CHAPTER 3

KENYA RAILWAYS

INTRODUCTION

The construction of Uganda Railways was both philanthropic in facilitating the suppression of the slave trade and both economical and political in securing the head waters of the Nile. At the onset we must note that the use of the term "Uganda Railways" is a misnomer because most of the railway line was constructed in the present Kenya territory and at the time of construction the boundaries of the two East African countries were not fixed as we know them today.

In the year 1895, the Uganda Railway Committee was set up and the first Chief Engineer arrived in Mombasa to start plans for the construction of the railway line. The following year, (1896) the British Parliament voted British £3,000,000 and later increased to British £5,500,000 for defraying the cost of building the Uganda Railway¹.

The Uganda Railway line reached Kisumu on the lake shores in 1901 and was opened to traffic in 1902. The Uganda Railway Committee then handed over the administration of the railway to the East African Protectorate Government on 1st October, 1904. The last tunnel at a distance of 526 miles from Mombasa was opened to traffic on 17th September, 1904 and this date has been marked as the end of the building of the Uganda Railway.

Until 1922 the Uganda Railway was administered by the Kenya

Government as a government department. In the same year the railway became financially separate from the protectorate government and received semi-autonomous status.

After four years of independence, the Uganda Railway line changed its name to Uganda-Kenya Railway and the following year 1927, the administration of the harbours came under the Kenya-Uganda Railway Authority and changed the name to Kenya-Uganda Railways and Harbours (KUR&H). In 1948 with the formation of the High Commission of East Africa all railway and harbour services in Kenya, Uganda and Tanganyika came under one authority, East African Railway and Harbours.

By the year 1963 all the East African countries became independent of British rule and they continued to carry out railway and harbour services jointly. This culminated in the formation of the East African Treaty of co-operation which was signed in Kampala on 6th June, 1967 by the three (3) East African Presidents. A recommendation was made to separate railways from Harbours which was enacted in 1969. Railway and Harbours were administered separately by their respective Boards of Directors under the communication council provided under the treaty of co-operation.

As time went on among other things political differences among the partner states of East Africa took a sore note culminating in the break of the East African Community Services. Kenya followed a mixed planned economy while Tanzania went socialist and on the other hand, Uganda once referred to as the "Pearl of Africa" is upto date

bedevilled with civil war since 1966. As a result of the break each country set up her own organization to deal with services once organised jointly by the three East African States.

Kenya Railways Corporation:

The Kenya Railways is a Kenya Government Corporation charged with the responsibility of transporting goods and passengers and the management of railway assets formerly owned and managed by the East African Community but located in internationally recognised boundaries of the present Republic of Kenya. The Corporation was set up in 1978 by an Act of Kenya Parliament. The Kenya Railways serves both major and small towns in the Kenyan territory like Mombasa, Nairobi, Kisumu, Thika, Nakuru, Eldoret and so on.

Unlike the original Uganda Railways which was mainly an instrument for strengthening security, Kenya Railways is an instrument for advancing development for both Kenya and land-locked countries in the Western part of the country.

The Kenya Railways is a link through Mombasa's Kilindini Harbour with the rest of the external commercial world and the rest of East Africa. The Kenya Railways has a work force of a little over 24,000 people as of 1st April, 1987².

Evolution of Kenya Railway Housing Policy:

It is not possible to talk or write about the housing policy of the Kenya Railways without reference to the Housing Policy of the former

East African Railways and Harbours. The Kenya Railway Corporation Housing Policy has evolved for a period of over 90 years.

The East African Railways and Harbours housing for its employee evolved from simple tent shelters provided for the coolies who constructed the railway line from the Coast to the hinterland, to the exclusive areas of Nairobi and the landhies of Muthurwa built to accommodate the lowest grade of railway employees.

Once the railway construction was completed the railway authority needed engineers, managers, architects, ticket examiners, general workers, etc. and in turn these people required basic needs like food, shelter and clothing for themselves and their families. The then Uganda Railway Authority rightly considered that it was her responsibility to provide shelter for the employees both local and foreign if the railway were to operate efficiently and effectively.

From 1947 to 1948 Holmes Commission looked at the Railway Housing Policy at that time and had this to say "The railways are special circumstances and to adopt contrary policy to the existing one would be inappropriate and undesirable, the railways, on recognition of this, adopted a forward looking policy in providing houses for its employees of all grades and have spent a considerable amount of capital in so doing". Holmes feared that if employees were charged a rental fee and given the freedom to choose and if they decide to choose private housing against railway housing, then the capital already spent in providing for railway housing for employees would remain idle and wasted if the houses remained unoccupied.

He noted at that time that most of the railway houses are in out of the way places where it would be impossible to find alternative tenants. He also noted that the nature of railway work is such that it is desirable that operating staff in particular should live within a short distance of their work station so as to be readily on call in case of need. It is for this reason that even Kenya Railway quarters for low grade cadre are sited near stations and grouped together.

At this time Holmes fear of workers looking for alternative accommodation was justified. But the present situation is that the housing shortage is so acute that even the so called reasonable house allowance cannot hire a house commensurate to the status of the employees.

Other contributors to the evolution of the railway housing policy were:-

- 1) Lidbury Commission of 1954
- 2) Flemming Commission of 1960
- 3) Harras Commission of 1963 and
- 4) Dustan Omari Commission of 1971-1972.

These had the following to say:-

1. Lidbury Commission - 1954

"We accept the status quo in so far as the provision of free quarters for the staff of the Railways and Harbours Administration is concerned and we have constructed our proposed scales of salary on that understanding⁴." Lidbury therefore endorsed the concept of free housing

for railway employees.

2. Flemming Commission - 1960

Flemming observed that the Railways house a substantial majority of their local staff in official quarters. The Railway Authority considered that for the time being it was necessary in the interest of operational efficiency for it to house the majority of its staff⁵.

The Commission noted that because of this, there was no need to increase the salaries of the employees.

Flemming however, recommended an increase of 15% for officers corresponding by then to Scale "F" and above for staff not occupying railway quarters and at the same time an equivalent of the same percentage be deducted from the officers' basic salary for those occupying railway premises.

3. Harres Commission - 1963

Harres recommendations differed substantially from the previous three reports. Harres Commission argued that whereas they appreciated the essence of providing housing for a certain category of employees near place of work, it was the work of Municipalities, Building Societies, Housing Co-operatives or the employees themselves to provide housing and not the railways⁶.

It is worth noting that these recommendations were influenced mainly by policies operating in Britain although the East African

circumstances were very different. In Britain local authorities and lending institutions were well developed to provide the long term finance needed for housing development. This recommendation of employers divesting themselves of responsibility to house their employees has been one of the major contributory factors to the present housing shortages in Kenya and particularly in urban centres where most of modern economic activities are carried out.

Both Lidbury and Harres suggested that in principle, the employer (Corporation) should not be under obligation to provide free housing to its staff. It is worth to note as indicated in the previous chapter that housing increases productivity and the health of the worker and therefore what appears to be free is a major saving in terms of leasing a house or paying the worker a house allowance.

4. Dunstan Omari Commission of 1971-1972

Among other things the Omari Commission recommended the following which upto date forms the main stay of Kenya Railways Housing Policy:-

- 1) The termination of owner occupier housing scheme managed by the railway since 1954. Omari argued that since its inception 250 out of 40,000 had benefited from it . He therefore argued that it had become a failure because only few people had opted for it. And the system he argued benefited the individual rather than the Corporation. He therefore recommended that the employee should

be left to compete in the open market through forces of supply and demand as regards renting or purchase of housing. the effectiveness of this recommendation is subject to question in the light of the critical housing shortage in most urban centres in the country. If loans at free or very low interest rates would not work in provision of owner occupier housing, it is worth to note the same would not succeed in free market situations which is characterised with high interest rates charged and a general shortage of housing finance.

- 2) Free Housing Policy should cease for all the employees of the Corporation.
- 3) 15% of consolidated salary should be charged on employees who reside in railway premises.
- 4) The Corporation should cease leasing houses in the open market, and provide a reasonable house allowance for employees to look for their own accommodation.
- 5) The Corporation to continue to construct housing units to a limited extend for its employees at Wayside Stations and other such places where private rented accommodation does not exist.
- 6) The Corporation should ultimately revise salaries

in such way as to divest itself completely of the responsibility for housing.

Omari concluded his recommendations by saying "we consider... what we have been required to achieve this is inevitable we are consoled by the fact that their fate is no peculiar but it is in consonance with prevailing conditions in other Corporations and Government institutions⁷. It appears from this conclusions that Omari Commission was subject to achieving the conclusions he was required to achieve.

Kenya Railway Housing Policy:

As a result of these commissions over a period of time, the railway housing policy can be divided into:-

- 1) Rental Housing Policy (Houses built and managed by the Corporation).
- 2) House Allowance (Payment given to employee to hire accommodation in the open market).
- 3) Owner Occupier House Allowance (An allowance given to an employee who owns his own home or house).
- 4) Leased Houses (Houses hired from the open for the railway employees by the Corporation itself).
- 5) Railway Employees living in Hotels Boarding Houses, Hostels etc.

Kenya Railways Rental Houses:

The East African Railways and Harbours for along time pursued the policy of housing their employees. the railway authority argued that it makes sense in terms of work efficiency due to the nature of railway work. A certain category of workers may be needed on duty at an odd time hence the siting of their houses near railway stations. The Kenya Railways is one of the State Corporation with large chunks of land undeveloped or under developed all over the country. This fact has enabled the Corporation built housed when the housing policy has been favourable in putting up rental houses for employees.

The Corporation has houses of varied grades and number in various towns in Kenya as shown in tables 6 and 7 for numbers in each town and quality of the house respectively. However, with the changing housing policy in favour of owner occupation this mode of housing is threatened by extinction. the development plan up to the year 2,000 shows very little or no money has been allocated to this mode of housing despite the availability of land and the necessary manpower specializing in housing development.

Table 6: Shows number of houses per district/area and grade.

Area/District	Grade of Houses								Un- Classified
	1	2	3	4	5	6	7	8	
Nairobi	90	223	300	551	160	416	5042	-	
Kisumu	11	21	4	93	104	300	1114	-	
Nakuru	9	243	41	178	130	206	1197	8	
Nanyuki	-	-	-	-	-	13	53	-	
Murang'a	-	-	-	-	-	2	13	-	
Thika	-	-	1	-	4	10	40	-	
Bungoma	-	-	-	-	-	4	17	-	
Eldoret	2	19	19	32	-	115	433	8	
Mombasa/Voi	14	36	40	80	271	305	1138	54	
Kitale	-	-	-	-	-	14	36	-	
Total Grade	126	742	405	934	669	1385	9083	70	
GRAND TOTAL	-	-	-	-	-	-	-	-	13,414

Source: Field Survey

Nairobi area has the highest number of houses (See Table 6) in both high, middle and lowest grades of houses. Nairobi form the Headquarters of the railway Corporation. However, despite this high stock Nairobi has the greatest housing need for both the railway employees and employees of other Organizations in the country generally.

The interview revealed that most of the houses in Table 6 were built by the East African Railway and Harbours Authority. Kenya Railways is not interested in the construction of rental houses for employees. However, housing development work is going on at Maluya in Mombasa, Busia and upgrading in Muthurwa Estate with money from the World Bank at 12% rate of interest.

The Corporation rents its houses both to its own employees and outsiders. It therefore generates income from its premises from the rental market. This comes about in two main ways: When there exists a house of a grade that is higher than the unhoused employee the house is put to the open rental market and the railways receives an income for the same. Similarly, the railways will at the same time lease a house equivalent to the officer's grade who is unhoused in the market. Though this may sound like a contradiction, it makes a good sound business management for example:-

At the time of the survey a house was let out at Kileleshwa for Ksh.15,000/= from the railway housing stock and at the same time at Plainsview Estate a house was leased for the Railway Officer at Ksh.4,500/= per month from the open market.

Criteria for Allocation of Railway Houses

To be allocated a Corporation house the following are considered:-

- 1) Seniority in the job.
- 2) Salary Scale.
- 3) Marital status and sex (Married women on permanent and pensionable terms of service who are sole supporters of

(their families are entitled to Corporation house).

The houses are divided into seven classes and the classes are distinguished by several factors as indicated in Table 7 below.

Table 7: Shows factors that distinguish one Corporation house to the other.

Characteristics of Each House/Accommodation Space	C l a s s e s						
	I	II	III	IV	V	VI	VII
Living Room	1	Nil	Nil	Nil	1	1	Nil
Dining Room	1	Nil	Nil	Nil	Nil	Nil	Nil
Study Room	1	Nil	Nil	Nil	Nil	Nil	Nil
Living/Dining Room	Nil	1	1	1	Nil	Nil	Nil
Bed Rooms	4	3	3	3	2	1	Nil
Study	1	1	Nil	Nil	Nil	Nil	Nil
Kitchen with Cupboard or Larder	Nil	Nil	Nil	1	1	1	1
Bathrooms/WC	1	Nil	Nil	Nil	Nil	Nil	Nil
W.C.	1	1	1	1	Nil	Nil	External
Shower/WC	Nil	Nil	Nil	Nil	Nil	Nil	1
Shower	Nil	Nil	Nil	Nil	1	Nil	External
Garage	1	1	Nil	Nil	Nil	Nil	Nil

Table 7: Continued..

Characteristics of Each House/Accommodation Space	C l a s s e s						
	I	II	III	IV	V	VI	VII
Car Park	1	Nil	1	1	Nil	Nil	Nil
Plinth Area	2000	1400	1100	800	500	320	200
Servant Quarters	3	4	1	Nil	Nil	Nil	Nil

Source: Field Survey.

The houses are therefore distinguished by the area of the house, the accommodation offered and the amenities provided.

An employee has to earn a certain scale in order to be allocated a certain house grade. However, due to shortage and area preference, the research revealed that some employees have been forced to live in houses of lower grade. Housing shortage is also experienced in major towns of Nairobi and Mombasa and therefore in some cases houses are leased from the market for employees. The Corporation has no immediate plans of putting up houses particularly in Nairobi other than the upgrading of Muthurwa which was enforced by the President of Kenya, His Excellency Daniel T. arap Moi in his concern for the welfare of Kenyan Workers. The funds used by the Corporation for the upgrading is a loan from the World Bank. A question to why they could not borrow money from the open market, the officer interviewed said that the interest rate in the open market for housing finance was high.

The House Allowance Policy:

For an employee who does not occupy a railway house or one rented by it, but rent his own private accommodation, a certain amount of house allowance is paid to him determined by the maximum house allowance entitlement.

House allowance vary from job group to job group. An employee with highest income receives the highest house allowance for privately rented houses. An employee has to produce documentary evidence of renting the house by production of a receipt showing rent payment. In Nairobi most of the railway workers who received house allowance paid more in house rent than what they received in house allowance. Therefore, the reasonable house allowance was inadequate and remained only reasonable to the employer.

The research revealed that the employee in a railway rental house were better housed than the ones given house allowance. A case under study revealed that one employee who occupied a house in Kileleshwa, whose market rent was Ksh.15,000/= and his counterpart who is not housed received only an allowance of Ksh.2,530/=. The employee therefore could not rent a house of similar quality as that provided by the Corporation. This policy was seen to be unfair, discriminatory and inequitable.

The workers not occupying railway houses could not therefore be expected to operate at the same efficiency as those housed in the railways quarters which of course were of higher quality and would command higher rents in the open market.

House Allowance Scales:

Normal house allowance ranges from Ksh.240/= per month to Ksh.3,750/= per month. These house allowances are graded into two groups - Unionised and Non-unionised employees. Below are tables showing house allowances for non-unionised and unionised (See Tables 8 and 9).

/

Table 8: Shows Owner Occupier and House Allowance for Non-Unionised Groups.

Grade	House Allowance Ksh. Per Month	Owner Occupier Ksh. Per Month
Rs 2 - Rs 4	3,750/=	6,875/=
		Rs 6,500/=
Rs 5 - Rs 7	3,375/=	4,500/=
Group Ra to Senior Executive	2,530/=	3,900/=
Personal Secretary I	2,080/=	2,875/=
Personal Secretary II and Stenographer I	1,655/=	2,875/=

Source: Field Survey

From Table 8, house allowance is lower than the owner occupier house allowance. At the top house allowance is at Ksh.3,750 per month and owner occupier allowance at Ksh.6,875/= to Ksh.2875/= - Ksh.1,655/= per month respectively. Like the other case studies the amounts of funds were found inadequate compared to the rates

prevalent in the open market.

Table 9: Shows the House Allowance for Unionised Groups

Grade/Group	House Allowance Ksh. Per Month
RB Executive I	1,600/=
RB Executive II to Grade RB I	1,270/=
RB II to RB III	870/=
RB IV	665/=
RB V	535/=
RB VI	435/=
Group 'C' - Nairobi and Mombasa	350/=
- Other Municipalities i.e	
Kisumu, Kitale, Thika, Eldoret,	"
Nakuru	300/=
- Other Areas.	240/=

Source: Field Survey

It is worth-while to note that there exist a requirement whereby employees in occupation of privately rented accommodation are required to submit receipts in support of their claims for payment of house allowance. But this is only in respect of employees in Grade RB IB and above. Employees in Grade RB V and below,

including Group RC Staff who are not housed by the Corporation, are eligible for payment of house allowance at the rates quoted above and the requirement of production of receipts for rents paid do not apply in their case.

House allowance scales are such that housing commensurate to the status of the officer cannot be rented within the existing housing market conditions in Kenya particularly in Nairobi. For example the very senior executive receiving only 3,750/= this can only afford to hire a house in the middle income areas like Buru Buru, Kimathi, Harambee, while the lowest rent of Ksh.240/= can only hire a room in the slum areas of Mathare, Korogocho etc. It should be noted that a room in Umoja Estate (low income estate) goes for over Ksh.500/= per month exclusive of water and electricity charges.

Kenya Railway Owner Occupier House Allowance Policy:

The intention of the owner occupier house allowance in Kenya in general is to encourage home ownership and this is to stimulate the private sector in the provision of housing. Employees occupying owner built or purchased houses are entitled to an allowance higher than that provided for private rented premises. The idea here is to encourage owner occupied housing as opposed to employer provided. The Corporation owner occupier house allowance rates are much higher than normal house allowance and are sub-divided into:-

- (i) Unionised employees
- (ii) Non Unionised employees.

U n i o n i s e d

The maximum house allowance for owner occupier is determined by the capital cost ceiling and will include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of a house or land not exceeding 0.4 hectare whichever is the less. The owner occupier house allowance is calculated at 15% of capital cost without exceeding the capital ceiling. (See Table 8 and 10 for non Unionised and Unionised employees respectively).

Unionised Employees

Table 10 : Shows capital ceiling for owner occupier house allowance per grade

Grade/Group	Capital Cost Ceiling Present Rates
Executive I	Kenya pounds 17,000 which will include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of house or land not exceeding 0.4 hectare whichever is the less.
Executive II	Kenya Pounds 13,000 which will include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of house and land not exceeding 0.4 hectare whichever is the less.

Grade/Group	Capital Cost Ceiling Present Rates
Grade RB II	Kenya Pounds 13,000 which will include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of the house or land not exceeding 0.4 hectare, whichever is the less.

Source: Field Survey.

Table 11: Shows Capital Ceiling and Maximum Owner Occupier House Allowance for Non-unionized Employees

Grade/Group	Capital Cost Ceiling Rates	Owner Occupier
Group Rs 4	Kenya Pounds 26,000 which will include cost of 0.4 hectare of land or the purchase priceable.	Kshs. 6,500/=
Group Rs 7	Kenya Pounds 18,000 which include the cost of land not exceeding 0.4 hectare (one acre) or the actual or land not exceeding 0.4 hectare whichever is the less.	4,500/=

Grade/Group	Capital Cost Ceiling Rates	Owner Occupier
Group RA To Grade RB - Senior Executive 'C' Including Personal Secretary I	Kenya Pounds 15,600 which will include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of house or land not ex- ceeding 0.4 hectare whichever is the less.	3,900/=
Personal Secretary II and Stenography I	Kenya Pounds 11,500 which include the cost of land not exceeding 0.4 hectare (one acre) or the actual cost or purchase price of house or land not exceeding 0.4 hectare whichever is the less.	2,875/=

Source: Field Survey.

The lowest capital ceiling for unionised employees is higher than those non-unionised. This is due to the bargaining power of the worker's union.

Interview with the railway employees revealed that though employees would prefer to privately own houses for the long term benefit of earning an income, once the mortgage payments are completed; they preferred renting the same in the open market and go for the Corporation houses which are cheaper and located in high class residential areas of which they cannot afford with the current rates of house allowance. In fact most Head of Departments who had purchased own houses were exerting pressure to be re-accommodated in railway quarters. The heads of department argued that because the present rents in the open markets for their houses were higher than the owner occupier house allowance, they preferred to lease the same out. The other factors that discouraged owner occupation housing for employees within Railways Corporation were recorded as:-

- 1) Shortage of finance for initial deposit for purchase of house. This forced the employee to borrow from an alternative source to pay for the deposit. This resulted in the employee being over-burdened in servicing two loans at the initial period.

- 2) High interest rates in the existing financial institutions discouraged would-be home owners. Market rates range from 15-25%. This figure may be higher when other legal and professional fees and taxes are included.
- 3) The tax element increased when an employee income is increased by inclusion of owner occupier house allowance. This reduces the real income, from which the mortgage has to be repaid.
- 4) The quality of housing in the market currently is poor compared to the high quality colonial and East African Railway houses which are superior in terms of location construction and design.
- 5) Owner occupier house allowance is normally lower than prevailing market rents hence railway employees preferred to let their houses in the market and receive a higher rent and at the same time occupy cheaper railway quarters.

Houses Leased From The Market:

Leasing property from the open market is considered expensive and rationally not the best business alternative by the railway

Corporation. The Railway Management Policy discourages this practice for instance at the time of research only five houses were leased for the middle income staff. One of the houses leased was at Plainsview Estate on a five year lease at a consideration of Ksh.60,000 per annum. As stated above this would cost the railway over Ksh.300,000 by the end of the lease period. Such amount of money if it was considered if used to put up a railway house would serve the Railway Corporation for over 50 years, (the life span of such a house). This is reasonable since the Railway Corporation still hold large chunks of undeveloped land suitable for housing development. At the time of research the officers interviewed expressed concern that most of this land is being acquired by influential rich men and politicians at the disadvantage of the Corporation. It is worth to note that even the land on which Plainsview Estate is constructed belonged to Kenya Railways Corporation.

Railway Employee Living in Hotels, Boarding Houses, Hostels:

An employee living in a hotel, boarding house, hostel or club is eligible for house allowance assessed at 50% of all in monthly charge for himself and his family, subject to the maximum house allowance he would have received if he had been living in privately rented accommodation.

Conclusion:

The East African Railways Corporation left Kenya Railways with a comparatively large stock of high quality of housing units.

For the last ten years not much increases has been made in terms of new housing units for staff rents. This is as the result of a housing policy which favours owner occupier housing which utilizes finances provided by private financiers. This policy of the Corporation divesting itself from providing housing for its staff has resulted in a limited number of houses produced on the market hence causing an increased shortage.

At the time of research the railway housing registry showed that a stock of 13,190 that is about 54.9% of the railway workers are catered for by the Corporation in terms of housing. And the rest of the employees receive house allowance to enable them to purchase or rent housing space in the open market. As indicated earlier, this allowance is far below the market level, and the rental accommodation is in many ways non-existent in the open market.

Owner Occupation:

Less than 1,200 railway employees had purchased their own houses, despite encouragement for owner occupation both by the Corporation Policy and Central Government.

This is less than 5% of the total employees within the Corporation. The officers interviewed stated that the attractiveness of owner-occupied housing has been hindered by:-

- 1) The expensive funds in the private financial institutions.
- 2) From the interviews, employees contented that the deposit for house purchase required that the prospective purchaser borrow from their Co-operative Savings and Credit Society to raise the initial deposit, and at the end of the house purchase, one is faced with two loans to service, resulting in a heavy burden on the monthly salary the employee receives.
- 3) The employer's houses are better than the present low quality expensive overcrowded houses built in the major urban centres by private developers.

CHAPTER 4

INTRODUCTION

This chapter consists of three (3) case studies that is Kenya Reinsurance Corporation, Central Bank of Kenya and the Industrial Commercial Development Corporation. These organizations are grouped together conveniently as financial institutions.

Kenya Reinsurance Corporation:

Kenya Reinsurance Corporation is a Government Corporation whose responsibilities involves carrying out business in second reinsurance that is insuring Insurance Companies. The Corporation was set up in 1972 under the Kenya Reinsurance Corporation Act of 1970. It has a work force of about 500 employees both skilled and unskilled.

Housing Policy for Employees:

Every employee of the organization is entitled to a house allowance consolidated within the salary. This is the monetary allowance to purchase accommodation in the private rental market. The house allowance ranges from Ksh.900/= for the lowest grade of employee to Ksh.7,100/= top executive of the Corporation. This range is very similar to those of other Government Corporations.

Home Ownership:

The Corporation operates a revolving fund for home ownership

housing purchase. At the time of the survey over 90% of the employees had purchased their homes through the scheme. To qualify for the scheme you must be an employee of the Corporation and be on permanent terms of service.

Sources of Funds:

The funds are from insurance deposits and business activities of the Corporation.

The funds are lent to the employee for a home purchase at an interest rate of 5% for maximum of 25 years. Minimum amount to be borrowed is Ksh.125,000/= and maximum is Ksh.1,000,000/=. This favourable terms have encouraged over 90% of the employees of the Corporation to own homes. The officer interviewed when asked why 10% of the employees had not owned their own homes he said the reason was that they had not been confirmed as permanent employees of the Corporation; that is did not qualify for the mortgage scheme and he said once they qualify there would be no limitation in terms of shortage of funds for home purchase.

The above terms as shown below in one of the cases, an employee who has purchased a home at Plainsview, one of the estates developed by the Corporation indicates that an officer pays less in terms of mortgage repayments as compared to owner-occupier house allowance entitlements. therefore other than the prestige that goes with home ownership the employee is able to receive an

extra income for owning a home.

It should be noted that owner occupier house allowance in the Corporation is calculated on 60% basis higher than the consolidated house allowance.

Example 1: House in Plainsview for an Employee

1. Purchase Price	-	Ksh.450,000/=
2. Interest Rate	-	5%
3. Owner Occupier House Allowance	-	Ksh.6,500/=
4. Repayment Period	-	25 Years
5. Mortgage Repayment		
Interest Rate at 5%	-	Ksh.562,500/=
Principle	-	Ksh. <u>450,000/=</u>
		<u>Ksh.1,012,500/=</u>

Employee monthly repayments Ksh.3,375/=

Employee Owner-Occupier

House Allowance - Ksh.6,500/=

Therefore Extra Income for

Owning a House - Ksh.3,125/=

This extra monetary benefit arises from the interest subsidy whereby the employee pays interest far below the market rate. Compare above example with case from one of the financial

institutions, where the employer funds were not available:-

1.	Purchase Price	-	Ksh.450,000/=
2.	Interest Rate	-	19%
3.	Owner Occupier		
	House Allowance	-	Ksh.6,500/=
4.	Repayment Period	-	15 Years
	Mortgage Payment		
	Interest Rate	-	Ksh.1,282,500/=
	Purchase Price	-	Ksh. <u>450,000/=</u>
			<u>Ksh.1,732,500/=</u>

Employee monthly repayment would be Ksh.9,625/=

Employee owner occupier house allowance

Ksh,6,500/=

Therefore the employee adds an

amount of

Ksh.3,125/=

to his allowance to meet mortgage repayment.

In our examples above we see that the employee is able to own a home at softer terms than if the funds had to be borrowed from the private market. It should be noted that in the above case the payment of legal costs of house purchase transactions are effected by the Corporation lawyer hence further reducing the costs to the employee. The employee, on the other hand, who is left to the market forces of demand and supply will be overburdened not only by mortgage repayments but also by the legal fees which in our above case may be as high as Ksh.15,000/=.

The employee who is left to the forces of the market will therefore be required to borrow or have saved enough funds to meet the legal costs.

Rental Houses for the Corporation:

The Corporation has built flats which are leased into open market, but have no specific scheme for employee rental housing. This is so because the majority of the Corporation employees have benefited from the generous home ownership scheme operated by the Organization.

Conclusion:

Availability of employer funds and favourable terms of lending contributes highly to the success of home ownership scheme in the Kenya Reinsurance Corporation.

These terms are:-

- 1) Easy access to non-expensive money as compared to finance institutions in the open market.
- 2) Long term of mortgage repayment hence low repayments.
- 3) Low interest rate compared to market rates.
- 4) Attractive owner occupier house allowance.

CENTRAL BANK OF KENYA

INTRODUCTION

The Central Bank is the bank of banks. The bank regulates activities of banks and is the lender of the last resort for the banking institutions. The Kenya Central Bank controls amounts of money within the economy and issues new bank notes. The bank regulates the money circulation by manipulation of the interest rates in the economy and any other methods at the disposal of the bank for the needed control including exchange control.

The Central Bank was formed in 1966 at the break of East African Currency Board which initially had the responsibility to control and issue of bank notes in the three East African Countries.

The Kenya Central Bank has branches in Mombasa, Kisumu and the Headquarters are in Nairobi. Has a work force of 1,300 technical and managerial employees.

Housing Policy:

The bank provides each employee with a reasonable house allowance consolidated with a salary commensurate to the job grade. An employee owning a house is entitled to owner occupier house allowance. The bank also provides rental accommodation in her own houses and flats in Nairobi and Mombasa.

House Allowance:

Each employee at the Kenya Central Bank is entitled to a house allowance consolidated with salary. The allowance is based on the job grade within the establishment. The allowance ranges from Ksh.6,000/= for the top executive to Ksh.650/= to the lowest paid employee within the institution. The officers interviewed felt that these allowances were low as compared to the existing market rents particularly in Nairobi where most of the employees reside.

Rental Housing Owned by the Organization:

The bank has built flats and houses in Nairobi, Mombasa and Kisumu.

Nairobi: 50 flats for income staff.
5 houses for senior staff (in Karen Muthaiga and Hurligham).

Mombasa: 1 house for Branch Manager.
13 flats at Nyali and Tudor for middle income groups.

Kisumu: 1 house for Branch Manager.

Home Ownership:

A revolving fund has been set up to provide money for employees who require to purchase their own homes. The Management however

expressed that the funds were inadequate to meet the total demand of the employees.

The amount of money advanced from home ownership house is based on ability of the employee to pay. The amount advance is calculated in the following way that is 25% income multiply by years an employee will pay before retirement from employment and does not exceed 20 years.

Example 2:

Say income 120,000 per annum.

Time repayment 20 years

Therefore mortgage advanced

$$- 120,000 \times \frac{25}{100} \times 20$$

$$- \text{Ksh.}600,000/=.$$

An employee earning Ksh.120,000/= per annum will be entitled to a ceiling of Ksh.600,000/=. This funds are advanced at an interest rate of 3% compared to other institutions under study this is the most generous, and when compared to other lending institution for owner occupation the repayment rates are reasonable and affordable as shown below:-

Employee Central Bank

Mortgage say 600,000

Term Period 20 Years

$$\text{Interest rate } \frac{3}{100} \times 600,000 \times 20 = 360,000$$

Total repayment after 20 years Ksh.960,000

$$\text{Monthly repayment (instalments)} = \frac{960,000 \times 1}{20 \times 12}$$

Ksh.2,400.00

Compare above with employee who seeks funds from private housing banking institutions existing in Kenya at:-

- 1) Interest rate 19%
- 2) Terms of repayment 20 years
- 3) Amount advanced 600,000 as above.

Mortgage Ksh.600,000/=

Term of period 20 years

Interest on Mortgage

$$\frac{19}{100} \times 600,000 \times 20 = 2,280,000$$

Total repayment after 20 years

- Ksh.2,880,000m

Monthly instalments will be Ksh.2,880,000

$$20 \times 12$$

- Ksh.12,000

Funds provided for this scheme are affordable by employees. And the officers interviewed were very happy with the terms of mortgage. However, they felt that the money in the revolving fund scheme were inadequate because they are only able to creat 12-15 homes per year. They would like to

create more homes for employees than what the case is as of now. The other problem encountered in the system is when an employee's family status changes or income and he requires larger accommodation or prefer a higher income area to the present one because of the changed income status. The bank does not allow reborrowing for expansion or purchase of another home.

Housing Leasing Policy:

The bank discourages this type of housing for employees in favour of home ownership. this system is expensive as compared to other systems. At the time of survey there were no employees accommodation in institution leased houses.

Conclusion:

House allowance incorporated in the salary was considered to be below the rent prevalent in the market.

Mortgage for home ownership was considered reasonable and affordable by the employees of the bank.

As regards rental houses for employees the management felt that this housing system was not popular with employees, most of them preferred to own houses because of the more favourable terms and benefits that accrues to home ownership that is owning an asset

which gives security to a family hope for an increased income once the mortgage is repaid back. The mortgage repayment rates and interest charged is reasonable and easily affordable by employees.

Rental housing for the Organization and for home ownership has enabled the institution to house 468 employees or 36% of the employees. The remaining 64% continue to receive a house allowance which is inadequate to hire a decent home within the urban centres where the bank has office.

Rental housing policy has emphasised the senior and middle income groups and lower income groups have not been considered in the provision of this housing scheme though it is the most needy group in Kenya who require houses. The rental housing scheme is no longer encouraged by management.

Owner Occupation:

To encourage home ownership the institution has set up a revolving funds which at the time of research was at Ksh.20,000,000/= for acquisition of a home. The fund are lend are lend at 3% interest rate to the prospective home purchaser. To qualify the following criteria is considered. Each condition is awarded points.

The employee with the highest points is given first preference for a loan.

- 1) Job status - that is temporal, permanent or contractual.
- 2) Marital status and the number of children an employee has.
- 3) Seniority in service and job grade.
- 4) Ceiling for a loan is based on ability to pay which is determined by salary of the employee.

At the time of survey 400 employees had benefited from the revolving fund.

INDUSTRIAL COMMERCIAL DEVELOPMENT CORPORATION
(I.C.D.C)

INTRODUCTION

The Industrial Commercial Development Corporation is a statutory body wholly owned by the Government of Kenya. It has a work force of 350 in both technical and managerial cadres. It is the Government's principle organ in Kenya assigned the responsibility of co-ordinating development of commercial and industrial sectors of the economy.

The Industrial Commercial Development Corporation was established in 1954 under the Industrial Act Cap 517. The main objective initially was to facilitate the Industrial and Economic Development of the the colony by initiating and assisting or expanding industrial, commercial or other undertakings or enterprises in Kenya. The Corporation has undergone tremendous restructuring and changes since it was formed. Greater changes have taken place since Kenya became an independent state on 12th December, 1963. As from 1964, the activities of the Corporation have been redefined to include and reflect new aspirations of independent Kenya; since at independence very few africans were involved in commercial and industrial activities. Industrial Commercial Development Corporation has since then introduced many africans into commercial and industrial activities. It was only until 1967 that the organization adopted the present name of Industrial Commercial Development Corporation to fully reflect the scope of its activities.

Several africans have benefited from I.C.D.C. Small scale industrial commercial and property loans programmes. The Corporation has assisted and continues to assist in the identification, initiation and promotion of a large number of medium and large scale projects.

All policy decisions are made by the Board of Directors within the frame work of Government Policy and Planning. The Corporation has six chief officers heading various departments as indicated below:-

- 1) Executive Director (Overall In-charge)
- 2) Chief Manager
- 3) Corporation Secretary
- 4) Finance Controller
- 5) Chief Industrial Manager
- 6) Commercial Manager
- 7) Investment Supervision Manager

To day-to-day operations of the Corporation is the responsibility of the Executive Director. In addition to the six departments at the Headquarters in Nairobi, there are over seven Provincial Officers representing all departments at the head office. Each Province has a Provincial Officer and with him are the supporting staff.

ORGANIZATION STRUCTURE OF THE CORPORATION

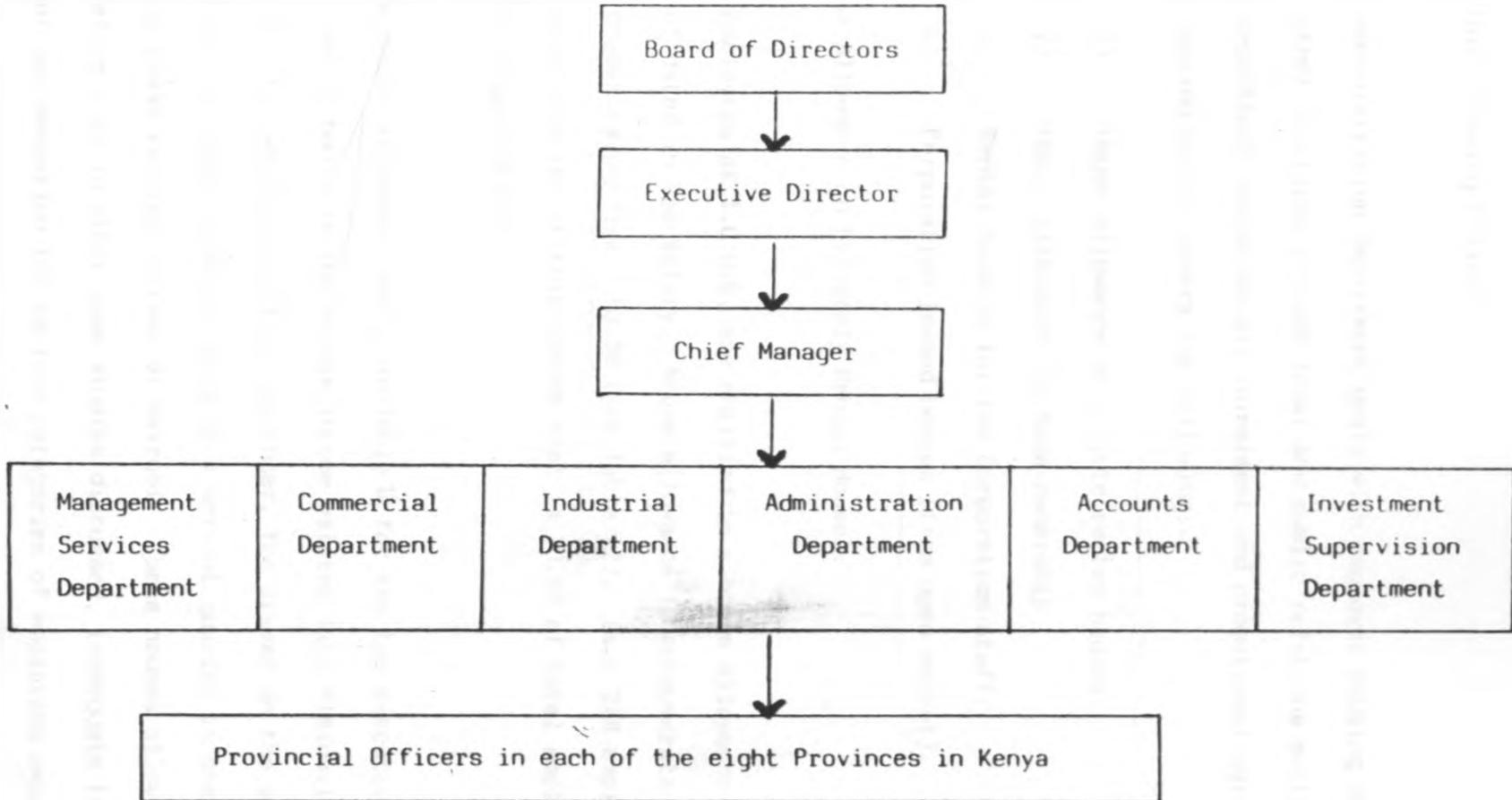


Diagram 2.

Employer Housing Policy:

The Administration Department deals with employee housing matters. Its other functions include legal and public relations matters. The department checks on all investment and promotional agreements. The housing policy covers the following:-

- 1) House allowance on private rented houses.
- 2) House allowance for home-ownership .
- 3) Rental housing for the Corporation staff.
- 4) Corporation leased houses (from open market).

House Allowance on Privately Rented Houses:

The employees of I.C.D.C. are entitled to a house allowance consolidated in the salary. House allowance is commensurate to the job grades ranging from 1 to 16 (see Table 12). Over 248 employees are beneficiaries of this scheme that is 70.8% of total employees in the Organization.

These house allowance scales in Table 12 for the top executive can only rent a house in the middle income estates like Plainsview, Onyonka etc. while the office messenger, the lowest on the scale can only rent a single room in Umoja or a servant quarter in one of the middle class estates in case of Nairobi. These houses allowance are therefore like in other case studies discussed, inadequate to secure decent accommodation for various categories of employees especially the low cadres due to high house rents prevalent in the major towns in Kenya.

Table 12: House Allowance of I.C.D.C Employees as per Job Grade.

Grade	Status	House Allowance (Ksh. Per Month)
1	Managers	5,000
2		4,250
3		4,000
4		3,500
5		3,500
6		3,500
7	Deputy Heads of Divisions	2,750
8		2,750
9	Newly Recruited Graduates	2,250
10	Assistant Accountants	1,750
11	Senior Clerks	1,750
12	Typists	1,750
13	Drivers etc.	1,150
14		
15	Messengers	750
16		

Source: Field Survey.

House Allowance for Home Ownership:

An employee of the Corporation who owns her or his own house is entitled to owner occupier house allowance which is higher than that given for privately rented houses. The idea is to encourage home ownership. The allowance is based on 20% of the capital cost of the property or purchase price subject to certain limits for each job grade as shown in Table 13.

At the time of survey, 102 employees were the benefactors of the scheme. This is about 29.1% of the total number of employees. 83.3% of them benefited from I.C.D.C. home ownership loans scheme and 16.7% from private market financiers or own savings.

I.C.D.C. Employee Home Ownership Loan:

The home ownership loan scheme was launched in 1978 to provide loans for purchase of employee houses. The funds were from the general I.C.D.C loan fund. After three years of operation, the scheme was suspended in 1982 due to shortage of finance after benefiting 85 employees. The scheme, it was found, was in conflict with the major objective of the Corporation assisting the general public to advance commercial and industrial activities by draining the limited financial resources available for this purpose. Since then home ownership has declined to a desperate level within the Corporation at the time of survey. Efforts are being made to locate a source of funds which will assist in providing loans to employees at 5% interest rate at which the initial scheme lend money to

employees for home development or purchase.

Table 13: Owner Occupier House Allowance for I.C.D.C.
Employees as per Job Grade

Grade/Job Group	Monthly Home Ownership Allowance Kshs Per Month (Limit)
1	6,750
2	
3	6,250
4	
5	5,500
6	
7	
8	4,500
9	3,750
10	
11	3,125
12	2,500
13	
14	2,000
15	
16	1,750

Source: Field Survey

When the officer dealing with housing was interviewed as to why they cannot ask employees to borrow from the existing private institutions, he retorted that the money was too expensive for home ownership purchase and a house used for a home does not earn an income for the owner.

The officer in-charge of employee housing confirmed that the suspension of the home ownership loan scheme has retarded home ownership process in the corporation.

The finances available in the open market as indicated earlier are at a very high rate of interest, and if an employee has to borrow to raise the initial 10-20% deposit required for the purchase of a home and at the same time meet the demands of mortgage repayments it over-burdens the prospective home owner. The rates in the private formal financial institutions range from 15-20%. However, when other costs e.g. legal, taxes, valuation fees etc., are included the cost for home ownership become very prohibitive. The officers interviewed confirmed that with the introduction of Corporation home ownership scheme they would seek loans for house purchase.

Observation:

As observed earlier the house allowance rates paid for home ownership at all levels are too low to meet most mortgage repayments and the repayments of loans which are mainly borrowed from the various employee savings and credit cooperative societies. For example an allowance of 6,750/= for the top executive can only meet

mortgage repayment for a house in the middle income areas of Nairobi. This is not the areas the top executives of such Corporation would wish to reside. However, rents for houses in areas where they are expected to have residence range from Ksh.10,000/= to 20,000/= per month in Nairobi. Generally for all grades of employees house allowance paid for both private rented houses and home ownership are below markets rents.

Leasing of Houses in the Open Markets:

The Organizations' policy does not encourage leasing houses from the open market for employees. The practise is believed to be expensive and does not make a better business alternative as compared to the other two modes of housing provided by the Corporation.

Rental Houses for the Corporation:

The Corporation has put only two houses for the Heads of Provincial Offices. This mode of housing has not received much attention by the Corporation. Nairobi employees are said to prefer house ownership to Corporation rented houses.

Conclusion:

The Corporation employees rank home ownership top as the best mode of housing. This is because:-

- 1) The stability and prestige that goes with home ownership and owning fixed asset generally.
- 2) They received higher house allowance than for privately rented houses.

The house allowance for both modes of housing are below market level.

The employees are reluctant to acquire expensive finances within the private financial institutions for home ownership. They therefore preferred to wait till the home ownership loan scheme will be reintroduced.

The employees preferred rental Organization houses to securing accommodation in the open market.

CHAPTER 5

CIVIL SERVANTS HOUSING

INTRODUCTION

Kenya became a British Protectorate in 1895 and with the construction of the Uganda Railway the interior of the present Kenya was opened to the British businessmen, farmers and administrators. To control their subjects the British sent a governor to Kenya by the year 1903. This date could be taken as the beginning of the present civil service in Kenya. A protectorate Government was set up to control specific areas and it was answerable to the King of England. Kenya became a British Settler Colony in 1920 and by then the civil service structure was established with various councils equivalent to the present ministerial structures we inherited at the time of independence in 1963. In 1964 Kenya became a Republic and the then President Jomo Kenyatta became the Executive Head of the Civil Service.

The present civil service has an Executive President as its head. The service consisted of ministries with Permanent Secretaries as the Chief non political officers appointed by the President, under them are: technical, managerial and non specialised employees. The employees are spread all over the Republic of Kenya to give service to the public. The country is divided into administrative areas ranging from the province to sub-location. The province is headed by a Provincial Commissioner and at the lowest, the sub-location is headed by sub-chief or assistant chiefs.

The Kenya Civil Service is the largest single employer in the country with a work-force of over 360,000, providing housing for such force

is gigantic work which require substantial amount of human and capital resources. The civil service housing policy has evolved over a period of 70 years. In general the colonial Government emphasised employer provided houses and on the other hand the african independent government has in part continued to provide houses for civil servants and house allowance for the employees who are not housed in Government quarters.

Review of Existing Civil Servant Housing Policy:

The present civil servant housing policy is mainly the product of various reports and missions set up in post independent Kenya to review housing policy for the whole country and terms of service for the civil servants in Kenya.

The United Nations Missions 1965:

Immediately after Kenya became independent the african government came to a realization that there was need for a housing policy to alievate the existing acute housing shortage. The Government then invited the United Nations Mission, chaired by Bloomberg to study the housing situation in Kenya and recommended short and long term housing policy in the context of Kenya social-economic environment. The mission recommendations were adopted by the Kenya Government in a Policy Document Session Paper No.5 of 1965/66 on housing policy.

On civil servant housing the Bloomberg recommended that since most

of the civil servants are local, to continue housing them would create a special privileged class which would not be in the interest of the country. Therefore the Kenya government should divest herself from housing civil servants that is.

"Administration should not be responsible for the housing, with certain exceptions, of their local civil servants as such a term of service would not be compatible with local service. The need to provide housing arose during the time the civil service was based on the expatriate officer and to perpetuate such a system when the country has attained self governing status, the system would create a privileged class of persons which the country could ill afford to maintain at a time when all resources would be required for the benefit of the general public¹."

This assertion by both Pratt Report of 1963 and United Nations Mission of 1965 is erroneous to the extent that housing is a basic need and is required both by expatriate and locals alike and as a matter of fact most civil servants work several miles away from their rural homes and they are subject to transfer from place to place.

As we noted earlier in Chapter 3, the Central Government normally acts as the "barometer" of the private sector. Once the Kenya Government adopted the policy of divesting itself from housing the civil servants the private sector employers followed suit and abandoned the previous responsibility of providing employees, with houses and instead they offered employees what is called "Reasonable House Allowance" for none existent houses in the market. This means that actual number of houses on the market has continued to decline resulting in an acute shortage and in the high rents experienced in major towns in Kenya.

As at independence 1963 there were 20,308 units of Government owner houses of these 12,340 were institutional houses 7,791 were pool houses. The United Nations Mission recommended in her report that the Kenya Government should dispose of these houses to private individuals or landlords. The mission recommended that the civil servants should purchase their own houses by obtaining private finance. Here it should be noted that by the time these recommendations were made Housing Financial Institutions in Kenya were very few as compared to now. Despite the increase in financial institutions, many have been closing down. At this point one wonders how such a policy would have worked in the environment of 1965, when they were relatively very few private or public Housing Finance Institutions. The mission gave recommendations that the existing Eagle Star Insurance Company, Mortgage Finance Corporation and Building Societies would form a source of housing building funds².

Most of the United Nations Mission recommendations were adopted by the Kenya Government as laid down in Sessional Paper No.5 of 1965/66 on housing policy of Kenya. Other than divesting from housing civil servants in general the mission recommended that the Government would continue to provide institutional housing for staff working in essential institutional such as schools, hospitals and at remote stations and also for personnel liable to frequent transfers³.

The mission however hoped that the majority of civil servants would rent or buy their own houses either independently or under rental or home ownership schemes introduced in the towns. Some effort has been done in this direction but it has been inadequate to meet the housing need and demand. With the adoption of U.N.O mission recommendation the subsequent development plans spent little on Pool Housing. During the Development Plan Period 1964-1970 the plan proposed to spent a token of K£.10,000 a year for housing other than institutional housing for the whole of the plan period 1964-1970⁴. At the end of the period an inquiry was set up to study the Public Service Structure and Remuneration under the Chairmanship of Philip Ndegwa (1970-1971).

The Ndegwa Commission - 1970-1971:

Among other things the Commission looked into government's practice in provision of housing for civil servants.

The Commission looked at the modes of housing provided for civil servants and came out with the following conclusions:-

- 1) In terms of investment, civil servants occupying their own houses have the greatest advantage in that when loan repayments are completed, the individual officer is left with a property which he owns.
- 2) That all modes of housing accorded to the civil

servants is a form of subsidy. The Commission noted that for all groups of officers the subsidy increases as the salary level declines except for officers who live in government quarters where subsidy increases with increase in salary.

- 3) The greatest subsidy is for officers living in government houses followed by officers in owner occupied houses and at the bottom is those in privately rented houses.
- 4) From the fore-going the Commission concluded that there is inequality in treatment of civil servants in housing provision for same officers with different modes of housing⁵.

The Commission found that the government housed 24,383 civil servants in their own quarters and paid over K£1,142,000 per annum to over 12,000 officers who resided in both privately rented quarters or their own houses.

The commission in essence endorsed the U.N.O Mission recommendations on Government divesting itself from providing houses for civil servants as a long term policy. An inquiry into house allowance for privately rented houses revealed that the money paid to employees was below the prevailing market rents and therefore inadequate to

secure decent housing in the open market. The allowance were then reviewed upward and on owner occupied house allowance it was recommended it should be calculated at 15% of the total cost or value of property. All these recommendations were accepted by Kenya Government in its Sessional Paper No.5 of 1974. Five years after the Ndegwa Commission the government felt there was need to review terms of service for civil servants and the 1979 Waruhiu Civil Servant Review Committee was set up.

Waruhiu Civil Servant Review Committee:

Among other things the Committee looked at civil servants housing. On housing Waruhiu Committee agreed with the long term soundness of the housing policy of the proceeding commissions and committees on divesting itself of providing houses for her employees, but /Kenya asserted that experience has shown that institutions charged with the responsibility to provide sufficient housing like the local authorities, National Housing Corporation to meet the increasing housing need and demand has not produced adequate houses for the market. The situation remains basically the same in 1987 and may be described as desperate when you look at the rate at which slums and illegal settlements are coming up in our major urban centres. Information available revealed that while in December, 1969 there were 24,383 government housing units, there were only 29,833 in December 1979 this gives an increase of only 5,450 units over a period of 10 years. Meanwhile the Committee noted that the Civil Service establishment increased from 73,072 employees in December 1969 to 163,885 in December 1979⁶.

The Committee also noted the pressure on available housing is heavier than ever before and prices and rents have multiplied almost three fold over the last decade. The Civil Service is more desperate for housing than it ever was. The time when Government would pay a clear wage and divest itself of the responsibility of housing civil servants with a clear conscience is farther away now than it was when Ndegwa Commission reinforced the idea of the previous reports and missions on matters of Central Government divesting itself from providing houses for civil servants. The Waruhiu Committee therefore made the following recommendations:-⁷

1. Government Houses

The Government should immediately embark on an ambitious building programme aimed at reaching near self sufficiency in government owned housing for civil servants with priority being given to housing development in Provinces and Districts.

The large sums of money spent on leasing houses should be progressively diverted to construction of more government pool houses. And the requirements in terms of numbers types as well as the geographical distribution must be accurately assessed and the Government should then draw up a housing programme to be implemented over a specified period on a sustained basis. It was further recommended that the responsibility of building and maintaining houses for civil servants be left with the Ministry of Public Works after the priorities have been decided upon and the

building programme seen through by the appropriate authority as defined in the development plan. The Committee recommended continued recovery of rent from government quarters at prevailing rates to provide funds for maintenance of the quarters.

2. Owner Occupied House

As regard owner occupied housing, the Waruhiu Review Committee agreed with the Ndegwa Commission and recommended that the Government should explore ways and means of providing assistance towards civil servants home ownership.

3. Privately Rented Accommodation

As regards privately accommodated officer the review Committee noted that they were the most disadvantaged. The officers in this category resorted to this type of accommodation or owner housing. The officers in this category were desperate as existing rates of house allowance were grossly inadequate and have forced them to live in substandard housing. It was therefore recommended that house allowance for the officer should be assessed on similar terms as those living in their own houses. This in effect recognised the inadequacy of the house allowance given to officers in privately rented houses.

Civil Servant Current Housing Policy:

The policy puts emphasis on the need to have diversified strategies for housing civil servants. The long term policy to gradually

discontinue housing civil servants which is contained in proceeding missions, committees and reviews is left out. In parts the policy states:-

"The bulk of civil servants housing will remain the pool housing programme which provides rental accommodation to Government employees. By increasing the housing stock of pool housing, the currently large budget spent in renting houses in the open market for this programme will be gradually reduced. Institutional housing will remain the responsibility of those Government departments whose nature and place of work require the employees to be housed within or near their stations⁹."

In line with the above policy and following recommendations of the Waruhiu Committee Report and also in view of the District Focus for rural development the Ministry of Public Works programme of construction for the plan period has been geared to increasing stock of pool housing at an unprecedented rate in post independence period. Under the plan for implementation of District Focus Policy the Government's plans to increase pool housing in the Districts. The schemes in the programmes include the following:-

- 1) Rubia Estate comprising 280 housing units. (This is now complete).
- 2) Kileleshwa Pool Housing re-development phases I, II and III are complete. It was proposed that Phases IV and V to start during the 1983 and 1984 financial year and Phases VI, VII, and VIII to start during the 1983/84 and 1987/88 plan period. Phases IX and X would be implemented thereafter.
- 3) Nairobi Airport Housing - a site measuring

20 hectares has been reserved to this Ministry by the Commissioner of Lands for this project. The project is intended to house civil servants working in Government departments at Jomo Kenyatta International Airport, is for Senior Staff. The project will span over the 1983/84 - 1987/88 plan period.

- 4) Nairobi West Pool re-development (Area 2,3 and 4) the project is a mixed development of flats and maisonnettes for all categories of civil servants. It comprises 90 maisonnettes, 200-250 individual flats, and 60 maisonnettes respectively. Since the project is large it will span over the 1983/84 - 1987/88 plan period and into the next one. Total project was estimated at Ksh.45 million.
- 5) Nairobi Junior Housing Scheme - This project will occupy a site measuring about 40 hectares which has been reserved by the Commissioner of Lands. The project is intended for Junior Civil Servants stationed at Jomo Kenyatta International Airport.
- 6) Nairobi Senior Housing Scheme - This project has been conceived by the Government to house Government Ministers, Assistant Ministers and Senior Government Officials in view of the high rentals the Government is paying to rent houses for them in the open market.
- 7) Mombasa Pool Housing - A site has been reserved for this project by the Commissioner of Lands. The housing scheme is to cater for civil servants working at the Government Training Institute Mombasa at the request of the Office of the President. It will also provide accommodation to other civil servants who currently have no housing in the Mombasa area.

- 8) Nakuru Pool Housing - The scheme will provide accommodation to civil servants working in Nakuru and comprises about 50 - 100 units.
- 9) Kisumu Pool Housing - The scheme is to house civil servants working in Kisumu. The site has been set aside by the Commissioner of Lands for housing development. It will comprise about 50 - 100 units for various categories for civil servants.
- 10) Kakamega Pool Housing - The scheme will be developed on a site reserved by the Commissioner of Lands. This will provide 50 - 100 units for civil servants in Kakamega.

Most of these schemes are concentrated in Nairobi which is experiencing the greatest housing shortage. However, the Government is determined to house its employees while at the same time encouraging other modes of housing.

Process of Allocation of Pool/Institutional Housing:

All civil servants are eligible for housing provided by the Government but, for married women, is only those who are self supporting or the sole supporters of their families.

The Government quarters are allocated in accordance with points system determined by the:-

- 1) Employee marital and family circumstances.

2) Length of service and basic salary.

The greater the number of points an employee has the greater are his prospects of securing a Government quarter. Civil servants living in Government quarters are charged a monthly rent which is considerably below market rates. However, only a minority of employees who are housed because of the limited number of houses. For example in 1986/87 according to a Government of Kenya officer interviewed only 0.02% of middle grade applicants for allocation of Government houses were likely to be successful (See Tables 14 and 15).

Table 14: Shows Number of applicants for civil servants houses.

Year	Number of Application Middle Grade	Number of Houses Allocated	Number of Applicants High Grade	Number of Houses Allocated
1976/77	441	18	218	78
1977/78	442	31	298	84
1978/79	638	78	556	283
1979/80	778	63	545	86
1980/81	227	66	124	35
1981/82	579	53	1008	320
1982/83	814	38	1010	448
1983/84	410	78	1120	314
1984/85	1200	88	815	288
1985/86	1616	136	-	-
1986/87	1890	144	969	298

Source: Housing Department.

From the Table 14 the number of applicants for houses is higher than houses allocated.

In fact some of the officers do not apply for Government quarters because the chances of getting them are slim. Therefore the number of applicants indicated in Tables 14 and 15 would be higher than what is shown.

Table 15: Shows the Proportion of Houses Allocated to Those Applied for both Middle and High Grade.

Year	Middle Grade	High Grade
1976/77	4.08	35.77%
1977/78	7.01	28.18%
1978/79	12.22	50.98%
1979/80	8.09	15.77%
1980/81	29.07	28.22%
1981/82	9.15	31.74%
1982/83	4.66	44.35%
1983/84	42.9	35.3%
1984/85	7.3	35.3%
1985/86	8.4	-
1986/87	7.61	30.75%

Source: Field Survey

From Table 15 the percentage number of high grade officers allocated with housing is higher than the middle grade. The

reason for this that the high grade officers are generally fewer as compared to other grades. The high grade employees have greater chances of getting a Government quarter as their basic salary is higher than the middle grade or lower grade. Therefore an employee in a higher grade has the greatest chances of getting accommodation in high class residential areas in our major towns like Nairobi. Like in the case of Chapter Three, an employee accommodated in Government house had better housing facilities than that given house allowance. The policy rendered employees to discriminating and unfair housing system in economic terms.

Private Rented Houses:

The employees who are not provided by a house are given a house allowance to find his own accommodation in the open market.

The highest house allowance is Ksh.3,750/= per month and the lowest is Ksh.240/= per month (see Table 16). Like in our last case study these rates were below the rents prevailing in the open market. The employees would therefore only rent houses below their job status.

Table 16: House Allowance for Civil Servants as per Job Group.

Grade/Group	Maximum House Allowance
A and (a) Nairobi and Mombasa	240.00
(b) Other Municipalities	180.00
(c) All Other Areas	145.00
C and D	535.00
E and F	715.00
G	970.00
H and J	1,370.00
K	1,655.00
L and M	2,080.00
N and P	2,530.00
Q	3,375.00
R and Above	3,750.00

Source: Ramtu Commission.

Owner Occupied House Allowance:

The allowance for owner occupation house is assessed at 15% of the cost of the house or purchase price. The capital cost ceiling are shown in Table 17.

The allowance in the Table were below the market rents for leased houses in the private sector. This therefore encouraged civil

servants to lease out their houses to receive a higher income than what was provided by owner occupied house allowance.

Table 17: Owner Occupied House Allowance and Capital Ceiling Civil Servants

Officers' Grade	Capital Cost Ceiling K£.	Maximum House Allowance K£.
R and Above	27,500	6,875
Q	26,000	6,500
N and P	18,000	4,500
L and M	15,600	3,900
J and K	11,500	2,875
G and H	7,800	1,950
E and F	5,200	1,300
C and D	3,900	975
A and B	2,080	520

Source: Ramtu Commission

The various reviews and committees on civil service terms have recognized the existing acute problem in housing. The present stock of pool institutional housing is inadequate to accommodate all civil servants, (see table 18 shows the number of Government house per each Province). Nairobi has the highest number, though it experiences the greatest shortage.

Table 18: Number of Pool Housing/Institutional per Province in Kenya

Province	Hq	Mq	Lq	Institutional Units	Rental Units	Total
Nairobi	1,795	3,449	4,992	3,094	2,934	16,264
Rift Valley	537	1,569	5,763	3,749	407	12,025
Coast	586	1,729	3,330	2,499	886	9,030
Central	355	1,077	4,311	1,404	94	7,241
Nyanza	253	1,095	2,291	850	195	4,684
Eastern	250	909	3,124	915	213	5,411
Western	104	823	1,182	581	57	2,747
North						
Eastern	32	216	1,216	277	52	1,793
Grand						
Totals	3,916	10,858	26,209	13,369	4,838	59,195

Source: Housing Department.

Key: Hg - High Grade
 Mg - Middle Grade
 Lg - Lower Grade

Total Government Stock:

Pool Only	40,983
Institutional	13,369
Rented Leased	4,838

Total number of civil servants houses 59,195.

From Table 18 the Government efforts in creation of civil servants houses is at 17.1 percent of the civil service force. This is desperately a small percentage of the civil servants considering the period from the colonial time up to date.

The civil service housing problem has been complicated by the recent Central Government Policy of making the District as a focus for rural development. This policy calls for more rental or pool housing as opposed to home ownership for Senior Officers who are to be posted in the district. Most of these officers are away from their home areas. Since as indicated in Chapter Two that the Government acts as a "Barometer" of the Private Sector, it is also anticipated that the Private Sector will decentralise to the district in conformity with the Central Government Policy. This will further complicate the already existing acute housing shortage due to increased manpower in the District Headquarters.

F O O T N O T E S

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2. Ibid p.53
3. Republic of Kenya, Development Plan 1964/70 p.122
4. Republic of Kenya, Report by the Public Service and remuneration commission under the chairmanship of Ndegwa 1970-1977 Nairobi p.245
5. Republic of Kenya, Waruhiu Civil Servant Committee p.168
6. Ibid p.169
7. Republic of Kenya, Report by the public service and remuneration commission under the chairmanship of Ndegwa 1970-1971 Nairobi p.252
8. Republic of Kenya Sessional Paper No.10 of 1980 p.166.

CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

INTRODUCTION

This chapter consists of the conclusions and summary of recommendations based on the analysed information and interviews carried out during the course of the study.

The recommendations are both specific to employers and general as a national housing policy to assist in alleviating the present acute housing shortage experienced in major urban centres in Kenya.

The study enabled the researcher to arrive at certain conclusions about employer housing as listed hereunder:-

- 1) House allowance provided by employers was inadequate to rent a decent house in the open market commensurate to the job status of employees therefore shared amenities or could only afford housing below their status.
- 2) The amount of owner occupier house allowance for employees who borrowed funds from the open market was below the mortgage repayment requirements. To service the loans the employees either used part of the salary to bridge the deficit or leased the house in the open market and occupied a cheaper quarter to be able to repay the loans. The interest rates for funds borrowed in the open market were

very high and this discouraged home ownership for employees. However, organizations who provided loans to their employees at 1 - 3% interest rate had as high as 90% home ownership with 10% only accounting for mainly new entries into the organizations. The researcher therefore concluded that with availability of cheap sources of funds home ownership would be preferred to any other mode of housing. High interest rates on housing mortgage has therefore discouraged home ownership in Kenya.

- 3) Where the company organization provided company houses the employees preferred them to house allowance because they were cheaper and more decent than what house allowance could secure in the open market. Company houses were also preferred because of location. That is in all the cases they were close to the place of work or in some of the high class residential areas of which the employees would not afford if given house allowance by the organizations. And in one of the cases the organizations provided transportation for employees and their children who resided in their estate to place of work and school.

4)

Open Market Leasing

Most of the organizations were in the process of terminating this form of housing for employees because they found it was very expensive and an irrational business decision in the long run. It was the policy

of most of the organization in our case studies not to lease houses in the open market though there existed some cases mainly due to necessity. It was considered that the cost of leasing a house for even five years was sufficient to construct a single house which would serve the organization for the life span of the house.

5)

Finance

There was no specialized institution providing funds from which employers would borrow at a reasonable rate for housing development. Most of the organizations used as case studies used their own profits or public funds entrusted to them for their safe keep for housing development for employees. The researcher found out that the organizations who had access to such public funds had effectively housed their employees.

Policy

6)

Organizational policy determined how effective the organization had housed their employees. Organizations which emphasized company houses and owner occupied housing were found to have provided more housing in the market than those who merely provided the so called reasonable house allowance. Firms with a deliberate policy to provide mortgage finance for employees at very low interest rates managed to house a higher

percentage of their employees than those who depended on finances in the open market.

7)

Manpower

Lack of sufficient manpower in housing matters was not found to be a hindrance in the organization efforts in housing their employees. Those organizations which did not have sufficient qualified manpower had contracted external labour for housing development. And in fact most of them had done better than those with sufficiently well qualified manpower in housing matters.

Recommendations

On the basis of the data collected and interviews carried out the researcher makes the following recommendations:-

- 1) It is essential to have a sustained programme with an agreed minimum number of housing units to be built per year. This will call for careful planning to ensure the availability of serviced land, appropriate house plans reasonably priced for every target income group of employees to be catered for and finally the availability of resources to find the long term housing solution for the nation as a whole. A standardization of Kenya local building materials and emphasis of the

use of the same will go a long way in reducing the import element in the building construction and this will encourage employment of local materials including human labour. This will therefore result in increased income for the people hence higher standard of living. This calls for high degree of corporation by all actors in the development and delivery of shelter to the needy. A deliberate policy and strong will from the government to decently house its people is imperative.

- 2) The creation of a revolving fund other than to make implementation of housing schemes subject to annual budgets or foreign loans is imperative. Such a revolving fund should be administered by an institution or central authority specializing in mortgage financing or housing finance on behalf of all employers in the country with the sole aim of ensuring that employee staff mortgage schemes are carried out on continuous basis without interruption due to shortage of finance. The same institution should directly lend employees who desire to build their own house at low and affordable interest rates.

- 3) House allowance for owner occupiers should be such that it encourages employees who own houses to remain in them rather than leasing the same in the open market where they fetch higher rental income. Tenant purchase schemes should be encouraged by employers for employees who have worked for them for a reasonably long period. This will in return encourage proper maintenance of the houses by workers who anticipate to own them once the purchase price has been paid.

- 4) Existing house allowance for all our case studies for privately rented houses as compared to owner occupation was desperately low. This rendered employees to discriminatory conditions in housing provision in the same job group. This would result in difference in productivity and job advancement leading to frustration of the employees as housing is a basic need for all. It is therefore recommended that the amount of money for house allowance should be sufficient to rent a decent house of the equivalent provided by the organization or owned by the employees so that fairness and justice is seen to be done in employee housing matters.
- 5) Increased access to housing provided by employer would result in reduced rents in the open market. Therefore regulations or laws to compel all employers to provide tangible houses should be enacted within the social-political structure of Kenya. Housing by the public and private sector in Kenya has fallen far short of the demand. This is due to inadequate cheap finances and related policy constraints. As such an enactment of law in this direction would go a long way in augmenting government's efforts in providing housing for all target groups and particularly the low and middle income employees who are unable to secure loans in the private sector due to restrictive conditions offered by lending institutions.
- 6) A single policy for employers to provide houses and related amenities will go a long way in augmenting the government effort in providing houses for the poor or the low income groups. In the past houses intended for this group ended up in the hands of upper and middle income groups. A deliberate policy by both government and private sector

firms to provide houses for employees at all job cadres will assist in alleviating housing problem for this target group.

- 7) House allowance both for private and public sector should be constantly reviewed upwards to match the high rents in the open market. This will encourage housing development by private developers who would benefit from higher return on their investment instead of what is currently called reasonable house allowance without consideration of the existing market conditions. In general this would boost private sector housing development by providing higher returns for other housing related resources. Mortgage repayments should also be reviewed from time to time to reflect changes in household incomes. Low repayment rates and long periods to be given to low income families, but adjusted as income improves. This would also supplement the central government effort in assisting the low income and the poor in provision of housing.

- 8) Good housing is a factor which keeps an employee in an organization despite low salaries or income. A recommendation is here therefore made for continued provision of company or organizational owned houses to avert union demands for increased salary or house allowance due to higher rents found in the open market. Employees

occupying company or organization houses receive a better deal as compared to those who seek houses in the open market where the rents are high. An increased number of houses by employees will naturally decrease the high rents existing in the market and there would be no demands to increase house allowances. The law of supply and demand will then take care of rents and eventually do away with the present machinery of rent control which is frustrating investors in housing.

9)

Finance

The research has revealed that ownership of homes in Kenya has been discouraged by the expensive money on the open capital market for housing development.

The house allowance paid to house owners by the various organizations under study were below the amount required to service the mortgage, hence employees preferred company owned houses to their own houses. Mortgage funds are also of a limited supply and consequently alternative cheap source of funds must be sought to develop new houses and at the same time improve the existing ones.

Below are several recommendations for alternative sources of funds for housing development for employers.

- (a) There is a world wide acknowledgement of capital shortage of a magnitude that has never been experienced before for both developed and developing countries and in particular developing countries

who have resorted to external borrowing this type of funds as explained in chapter two, may lead a country into deep debts so that the particular country is unable to service. It is recommended here that this type of funds should be avoided as much as possible for direct housing development except if used as seed capital for formation of financial institutions, co-operatives or unions for housing development.

- (b) The voluntary savings such as Kenya Postal Savings, Government Life Insurance Programmes and Public Bond Issues should be used to the maximum in housing development. These sources have not been exploited to the maximum in Kenya by both employers and the central government.
- (c) Public transport should be taxed to provide funds for housing and of infrastructural services development.
- (d) Compulsory savings programmes such as social security funds and retirement funds deducted from pay rolls should be put into housing development and the related facilities to serve employees who contribute to them. A specific levy should be charged on company or organizational pay rolls for housing development.
- (e) A National Bank should be formed to advance and manage the employer contributions which will be necessary for the acceleration of housing development in Kenya. To supplement this an institution should be set up

affiliated to the bank whose responsibility would be lending directly to individual employees. It should also be empowered to collect and receive compulsory savings funds and should have powers to borrow from other sources internally and externally and issue bonds for the same purpose.

- (f) There should be incentive to create more housing co-operatives and confidence in the housing banking system by the central government providing guarantee for both the savers and the lenders. This will encourage the banks to lend for housing development without the fear of borrowers defaulting in loan repayments.
- (g) The government should set up a policy for setting differential interest rate for housing loans. This will be an effective way of transferring resources from the frontiers of higher income to those with low income levels. This will reduce the need for subsidies from the central government.
- (h) Capital derived from central government budgetary sources should continue to provide a source for housing development particularly for government employees. These type of funds bear little or low interest rates. The source is therefore very important and should continue to be encouraged for housing development.

10)

Land

(a)

The cost of land particularly in urban centres has become a limiting factor in housing development. It is recommended here that land be taxed to encourage development. Underutilized land should be intensively and extensively used for the construction of flats instead of single tenements. Most of the public houses and private company houses were single tenements. It is recommended that high rise flats should be encouraged as opposed to single tenement which shelters only one family per house and yet occupying a large piece of land which can carry several flats which could cater for many families.

(b)

Serviced land should be availed by the central government to employers for development of houses for employees. The government should use the inherent powers in the compulsory acquisition act to acquire dormant and underutilized lands and plots in urban and trading centres for housing development.

11)

Tax

Taxes should be designed to promote more effective and rational use of land as well as to mobilize savings in every available sources locally to assist the present pressing housing shortage.

12)

Local Materials

Emphasis should be put on the standardization of local materials which will encourage industrial

production with the associated economies of scale. Use of local materials with reduced costs of construction per square metre of construction. This will result in more houses being produced on the market at a cheaper and affordable rate as opposed to the present situation.

13) **Areas for Further Studies**

The researcher recommends that further studies should be carried in Kenya on the following:-

- (i) The productivity of labour in relation to housing quality.
- (ii) The cost of external funding for housing development to Kenya's economy in relation to local sources.
- (iii) A study to be carried out on the recent winding of indigenous local financial housing institutions and what impact it has had to housing development.
- (iv) A study towards a formation of central housing bank for employee housing.
- (v) Effects of rent control mechanism on stock of houses produced on the market.

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APPENDIX 1A LETTER TO THE MANAGING DIRECTOR

Dear Sir,

RE: A STUDY OF EMPLOYER PROVIDED HOUSING IN KENYA

I wish to seek permission from you to interview some of your staff members involved in provision of houses for your employees.

I am a Kenyan working for the Ministry of Lands and Housing as a Housing Planner and a Post Graduate student at the University of Nairobi. I am currently carrying out a research on the provision of housing by employers to staff in Kenya and I have been given permission from the Office of the President numbered OP/13 001/001/17C 48/3 to carry out the same.

Your co-operation in this matter will be highly appreciated.

Yours faithfully,

(John Mano Choka)

APPENDIX 2

NAME OF RESPONDENT:

INTERVIEWER :

COMPANY/DEPARTMENT :

DATE :

To the Chairman, General Manager, Company Secretary.

1. For how long has your organization been in operation?
2. What are the major objectives of the organization?
3. What is the total number of employees in your Organization?
4. What is the housing policy for the organization as regards:-
 - (a) House allowance
 - (b) Financing housing development for the organization (Rental for the staff).
 - (c) Financing housing for employees (Owner occupation).
 - (d) Leasing houses for employees.
5. How much do you spent on each of the categories (a,b,c,d in 4 above) annually on average for the last 10 years?
 - (a) House allowance - Kshs.
 - (b) Financing Housing Development for the Organization(Rental) - Kshs.
 - (c) Financing Housing for employees Owner Occupation - Kshs.

- (d) Leasing Houses for employees - Kshs.
6. How many houses have you developed for employees since the inception of the organization?
- (a) Rental/Company houses
 - (b) Owner Occupation
 - (c) Leased
7. What per cent of gross income annually is spent on:
- (a) House allowance
 - (b) Leasing houses for rental purposes.
8. (i) What are the sources of your funds for?
- (a) Rental houses for the staff
 - (b) Owner Occupation for the staff
 - (c) Leased for the staff.
- (ii) At what interest rate do you borrow the funds?
9. What are the major problems in acquiring these funds?
10. What are the major hindrances in housing development for employees in your organization:
- (a) Lack of finance
 - (b) Shortage of land
 - (c) Shortage of manpower
 - (d) Policy restriction.

(Please rank them according to importance.)

11. How do you relate to the Kenya Government in terms of housing provision for your employees?
What assistance would you like to receive?

HOUSING DEVELOPMENT

1. How many houses have you developed in most recent years (last 10 years)?
2. Which department is involved directly in Housing Development?
3. How many technical experts involved in housing development do you have?
 - (a) Land Economists/Housing Administrators
 - (b) Building Economists
 - (c) Engineers
 - (d) Architects
 - (e) Technicians related to housing development i.e. Electricians, plumbers, carpenters etc.
 - (f) Accountants
 - (g) Computer programmers etc.
4. What problems have you encountered in managing your projects?
 - (a) Project delay
 - (b) Late payment to the contractor
 - (c) Problems in cash flows
 - (d) Contractor absconding from the site.
5. Are your projects completed on time?
6. Do you use the PERT or CPM technique in your project programming?
7. What are your future plans for housing development?