

ICA HOUSING CO-OPERATIVES

Organised Self-help to Solve Housing Problems

A manual
for organisers and local leaders
of housing co-operatives
among the urban poor

by

Hans-H. Münkner and Rolf Trodin



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Preface

If You have a blessing, You have a mission.

We, who work with the housing idea, feel that we have some sort of a blessing. We think that the only way to solve the housing situation for moderate and low income groups, is to involve themselves in the process.

A co-operative organisation and an organised self-construction with self-made local material is the only solution in many parts of the world.

ICA Housing played a very active role in the UN Conference Habitat II in Istanbul 1996. We have continued that work, by having so called follow-up seminars around the world. We also have produced material to be used in that work. Our work has resulted in many positive remarks from the UN.

In this book „Organised Self-help to Solve Housing Problems of Low Income Groups“ we present a manual, that gives examples of how this can be organised.

The book has been written, on our behalf, by Professor Münkner from the Marburg University in Germany. Professor Münkner is a well known international authority in co-operative work and ideas.

The last chapter „Solidarity Between Housing Co-operatives“ was written by me. It is based on a paper to the General Assembly of ICA Housing in Stockholm 1988. I have made some changes to modernise it.

With this book, which we hope will be useful for our member organisations, we present a practical material for the 'mission', to help people around the world to organise housing co-operatives and to work together locally, regionally, nationally and internationally.

Rolf Trodin

President of ICA Housing

May 1999

Organised Self-help to Solve Housing Problems

A manual

for promoters, organisers and local leaders
of housing co-operatives among the urban poor

by

Hans-H. Münkner, University of Marburg, July 1998

Part I. How to Form a Co-operative Self-help Organisation

1. Introduction

1.1. The Dimension of the Problem of Housing the Urban Poor

Poverty, population pressure, civil wars and search for better chances of survival are the causes for a continuing rural-urban migration in Africa, Asia and Latin America.

Up to the 1970s, rural migrants streaming into the cities were seen by governments as a threat, a kind of **social disease**, neutralising the efforts to build up a modern urban sector. Squatters were treated like criminals. They were perceived as backward elements in the modernising areas and „modern“ meant a copy of the Western cities. The city governments refused to extend basic services to slum dwellers and squatters for **fear of strengthening the pull-effect** and attracting even more migrants. Restrictive policies were adopted and stern measures applied to discourage newcomers and to force squatters and slum dwellers out of the cities. To give one example: Between 1980 and 1990 some 500,000 people were evicted from the Metro-Manila area and either ordered to return to their villages or relocated far from the city. These measures did not solve the squatter problem. Despite these evictions, more migrants have arrived.

Today, some of these negative attitudes have changed. It is common knowledge that little can be done to stop migration to the cities as long as the living conditions in the rural areas remain bad and even deteriorate. It is estimated that between the years 1990 and **2000** about

300 million people will have moved into Asia's cities and that **50 percent of the large cities in Africa, Asia and Latin America will be slums and squatter areas**. Cities like Lagos, Nairobi, Lusaka, Dacca, Bombay, Calcutta and Manila have already reached this point. HABITAT produced a film depicting this development with the appropriate title „**Exploding Cities**“.

In government circles the attitude towards squatters and slum dwellers is still ambivalent: On the one hand, the basic human right to decent housing is recognised in official pronouncements although little is done to make this right a reality.

It is accepted that migrants arriving in the cities can be regarded as assets rather than as liabilities, that squatters are no criminals but hard working, law abiding and patient citizens, who - if given the chance - will integrate themselves and their families fully into urban life. In many Third World cities the informal sector, where most of the urban poor work, is no longer seen as illegal and bad, but rather as legitimate and necessary. **The informal sector provides around 50 percent of all jobs and constitutes an important support structure for the „modern sector“ industries and a reservoir of cheap labour.**

According to HABITAT „Global Strategy for Shelter to the Year 2000“ the housing sector, including houses for the masses of the urban poor, can be used as a principal means to renew economic growth in Third World Countries. **Improving slum and squatter areas creates new jobs for the unemployed and the use of local building materials substitutes imports and saves foreign currency.**

However, on the other hand, old prejudices against squatters remain strong in the minds of many city administrators and town planners. Slums and squatter camps are seen as a **health risk** for the cities. In fact the health conditions in such settlements are alarming. For instance in Manila the infant mortality rate in slums is 200 per 1000 while the national rate is 50-60 per 1000 and the level of lethal malnutrition is 9.6 percent as compared to the national average of 3 percent.

It is feared that improved conditions in squatter settlements will attract more people and it is estimated that 4 to 5 workers arrive for each new job created in the cities. These fears are well founded. Migrants in disparate need of income for survival are willing to accept any job offered even below minimum wage with the possible effect that residents may lose their work to cheaper labour.

The fears that squatters, because they are poor, will turn into criminals are wrong. People migrating to the cities are the more energetic and

determined ones. They are willing to accept difficult and low paid jobs because they have no choice, they are ambitious, eager to learn and family-centred. According to the HABITAT Global Report 1987 most migrants succeed in finding work within two months, manage to increase their skills, later find employment at better conditions and improve their income.

There is another old but wrong prejudice: Squatter areas are not disorganised and chaotic. On the contrary, in squatter settlements there are thousands of small and large organisations with social, economic, cultural and political goals, some of which are very active and successful in improving the living conditions of their members.

1.2. Integrated Urban Development

The complexity of the problems of the urban poor excludes technocratic and sectoral approaches to solving such problems with lasting effects. **Multi-pronged strategies are required to find effective solutions.** This has been understood for decades in rural development, where strategies of community development, regional development and integrated rural development are common. In the urban context and with regard to improving the living conditions of slum dwellers and squatters, there is also need for integrated urban development.

The term „integrated“ has to be understood in three ways. It refers to

- systematic collaboration of the different levels of administration (national, regional, city government and community),
- co-operation of the different technical, economic and social services or departments (town planning, building construction, services in charge of infrastructure, public transport, labour, licenses, markets, health care, education etc.) and
- integration of the people concerned, i.e. the slum dwellers and squatters in planning and implementation of programmes directed towards them.

A constructive policy of integrated urban development has to find a place for migrants in society and has to give them the chance to improve their conditions by their own efforts.

The main problem of slum dwellers and squatters is their fear of being evicted. This fear will overshadow all their activities unless the questions of land security and protection of the home (even if this is a shag or simple shelter) have found an answer.

Measures to remove these fears are to offer the urban poor the chance to

own land or at least to lease it for a longer period (e.g. 25 to 30 years) and to delete laws and penalties that now inhibit slum dwellers and squatters to improve their homes.

Solving the problem of land security will improve the economic situation of the urban poor as a whole. According to a Buddhist saying that „**Shelter is the root of happiness**“.

When discussing housing problems of the urban poor it is important to look beyond the immediate questions of access to land and building construction. This was expressed in the Urban Poor Statement in Seoul in 1989:

„Housing is more than four walls and a roof. It is protection from sun and rain, but it is more. A decent home and community, that is, a decent place to live, is a human right“.

An integrated urban development policy has to take into account that the urban poor want to be treated as human beings and as citizens, that they want **access to basic services** like clean water, public transport, health and education. They claim their rights as citizens such as **freedom of association, access to employment and income, protection against arbitrary treatment and the chance to fight for their rights with peaceful means**, e.g. by going to the courts or to the media.

In a nutshell, the ultimate objective of an integrated urban development policy has to be to respect the human dignity of the urban poor and the human right to a decent home and the need „to build the man before building the house“.

The numbers of the urban poor in third world cities are in the hundreds of millions with a tendency to increase. While much can be done to improve the general living and working conditions of the urban poor, no government will be in a position to finance programmes to help these masses in a direct way. Therefore, **the only realistic approach** to improving the situation of slum dwellers and squatters will be to **encourage the people themselves to reach solutions through their own self-help organisations**.

1.3. Self-help Organisations

To cope with their problems and as a reaction to negative attitudes towards them, the urban poor have organised themselves in various ways:

There are large **people's organisations**, that use people's power to **put pressure on government** and to give people an effective voice in

decision-making processes. While in some countries such organisations were suppressed and their leaders prosecuted, people's organisations become more and more accepted as normal and important and have turned into forces to reckon with on the political scene, provided they remain strictly within the limits of the general law. Their importance grows with the size of their membership. **These organisations operate in the legal form of associations or federations with a non-profit status.**

At local level there are small, face-to-face groups at community level (**community organisations**), often affiliated to larger people's organisations. These community organisations have a broad range of objectives, ranging from operating improved community services, markets, health and education, cultural and recreational facilities to generating employment in community enterprises. They operate in different legal forms varying **from informal groups to non-profit associations and co-operative societies.**

Finally there are **self-help organisations dealing with housing issues**, having a more narrow, **mainly economic objective** such as acquisition and development of land, planning, financing and constructing houses, contracting leases for their members by way of **organised self-help as informal groups, societies or co-operative societies.** If self-help organisations in the field of housing operate in the legal form of co-operative society, they are usually affiliated to and supported by a co-operative apex organisation.

1.4. Target Group of this Manual

The present manual is intended to serve as a guide to forming housing self-help organisations in different stages of development, for different purposes and in different legal form, with emphasis placed on housing co-operatives in the socio-economic sense, i.e. self-help groups operating a jointly owned enterprise for the purpose of serving the interests of the members of the group who are at the same time

- the owners (providing the necessary funds),
- the goal-setters (determining the objectives of their organisation and how to reach them) and
- the users (benefiting from the services provided by their organisation),

irrespective of the legal form in which they work.

This will be done by an introduction to the problems related to meeting

the housing needs of the urban poor, an introduction to the ideas and mechanics of organised self-help, a presentation and discussion of the ideas underlying co-operative self-help, co-operative principles and practices as related to housing co-operatives and a step by step presentation of the procedures to follow when forming a housing co-operative.

2. Problems Related to Meeting the Housing Needs of the Urban Poor

Rural migrants coming into urban areas find themselves confronted with a host of problems for which they are not prepared. Instead of finding assistance and recipient structures, they enter into a hostile environment. They are harassed by bureaucrats and police and looked at with suspicion by inhabitants who see them as undesired invaders, as persons causing social, economic and security problems and as foreign elements disturbing smooth development of the city.

In the following, a list of the major problems is given, which migrants and the urban poor in general are facing with regard to meeting their housing needs.

2.1. Access to Land

The most serious problems of slum dwellers and squatters are **land security and protection against eviction.**

Solving the problem of land security means to break the vicious circle of misery and despair: **No safe home - passivity and fear - no motivation to make improvements to one's shelter - no future.**

To legalise illegal occupation of land and to protect the home of slum dwellers and squatters brings governments in conflict with basic rights of others, whose property has been trespassed and whose ownership rights have been violated. **To legalise illegal settlements is easier in case of government land and of waste land** without commercial value (along railways, under bridges, on slopes or marshy land) than on privately owned and valuable land. Compromises between squatters and land owners will only be found under pressure of people's organisations, of the media and public opinion. There are several **encouraging examples** where people's organisations, community organisations and housing co-operatives have succeeded in solving the problem of land security for their members by using strictly legal means: Land purchases in **Palo Alto, Mexico City**; land sharing in **Manila and Bangkok**, land purchases and development in **Karachi**, to mention a few examples.

Latin America: Co-operative village



In Bolivian low lands, the poor have to use local materials to build their homes, which do not protect inhabitants sufficiently against rain and cold during the winter (Photo: DESWOS)



Co-operators are proud of their co-operative village „El Alto“ in Bolivia (Photo: Dr. Hachmann, ICA Housing)

Latin America: Self-help housing construction



Co-operative self-help in the project „El Alto“, La Paz, Bolivia
(Photo: Dr. Hachmann, ICA Housing)



Family in front of their new home in Talca, Chile
(Photo: Dr. Hachmann, ICA Housing)

Where the funds for upgrading programmes for slum and squatter areas are lacking, some form of land security will encourage the poor to invest their own scarce resources in the improvement of their neighbourhoods by way of individual or organised self-help.

2.2. Access to income

An equally important problem of the urban poor is to find paid jobs or to earn income as **micro-entrepreneurs** or in **family employment**. To think of the urban poor as being unemployed is wrong. In fact, they are **over-employed**, often combining several time consuming, poorly paid and difficult jobs which may easily add up to a 12 to 14 hours working day. In order to survive, all family members, including children, have to take every opportunity to earn income.

Hence, the problem of employment of the urban poor is one of employment at tolerable working conditions, securing a fair income and a minimum of social and work place security. Like employment in the formal sector, the small jobs of the urban poor **need protection against unfair competition, exploitation and blackmail**. Jobs like shoe-shining, street vending, transport on push carts, sale of lottery tickets, small scale retailing and manufacturing are often controlled by powerful individuals or organisations and are not necessarily unregulated and untaxed. E.g. a market vendor may need as many as 10 or 12 licenses and permissions to open a stand in the public market and may have to pay in addition for location advantages.

To improve employment conditions of the urban poor, e.g. by **legalising pavement trading**, will be opposed by the „competitors“, i.e. the shop owners. Establishing a second labour market with lower pay and reduced social security benefits will be opposed by the trade unions. On the other hand, enforcement of a „luxury labour law“ meeting international labour standards (to which governments may have committed themselves in international agreements) would lead to unemployment of the weaker strata of the population and would create a new black labour market.

There are other ways in which governments could improve the overall socio-economic situation of the poor by direct help in terms of

- price and quality controls on basic food items (however, government controlled low prices for food crops favouring urban consumers may make food farming unattractive and work as a push-factor, driving farmers from the rural areas into the cities),
- free or cheap education,
- access to information and legal advice,

- subsidised medicine and medical treatment,
- access to land at favourable conditions.

2.3. Access to Clean Water

In the broader meaning of the term, clean water, sanitation and drainage are essential components of healthy living conditions in slum and squatter settlements as measures of preventive health care. It is **estimated that up to 80 percent of the urban dwellers in Third World cities have no access to clean water. In many places, water is sold in small quantities and constitutes an important part of household expenditure.**

There are *examples of community organisations that have succeeded in improving the water and drainage systems in relocation projects, e.g. the Orangi Pilot Sanitation Programme in Karachi, where about 80 percent of the drainage system have been taken over by organisations of the inhabitants at their own cost and where about 70 percent of diseases are controlled after the improved sanitation system has been installed.*

2.4. Access to loans

A house cannot be built without money. In an urban setting, even in the case of self-construction with the help of family members and friends, the cost of services of professional craftsmen and of building materials have to be met.

Saving for housing schemes are among the most common forms of organised self-help among urban low income groups. When trying to raise money for buying or leasing a small piece of land (50 to 60 sq. m) the urban poor are caught in another vicious circle. Without collateral security, they have no access to bank loans and without loans they cannot buy or lease land and build their houses. Where family members and relatives cannot advance the money and loans from money lenders are excluded because of exorbitant interest rates (e.g. 20 percent for 40 days), **to join a savings and credit organisation is the only way out.**

The types of saving for housing schemes **range from informal savings clubs to rotating savings and credit schemes (ROSCAS), mutual guarantee funds to credit unions** which are specialised in collecting local savings for the purpose of issuing loans for local housing.

In view of the limited income and saving capacity, the golden rule for housing of the urban poor is to save before spending and to spend wisely, to avoid going into debt but rather to build at one's own pace. This is why special types of housing schemes have been developed for

upgrading and relocation projects:

- **Developed sites**, meaning that the land purchased by a land development co-operative has been subdivided into lots, roads and connections to water, drainage and electricity systems have been built, while the **building construction is left to the owner or tenant of the lot**.
- **Site and service schemes**, offering only the foundations of the future house fitted with connections to water, drainage and electricity systems, leaving it to the individual beneficiaries to build their house as they can afford.
- **Core houses**, which means carrying the site and service model one step further by building the **wet core** (kitchen, bathroom, toilet) or the wet core with one room with or without roofing on the foundation and leave it to the occupants to expand the house according to their needs and means.

2.5. Access to cheap building materials

The cost of building construction can be reduced in various ways. Government, the city council can help to reduce the cost of housing the poor by providing plans for **low cost housing** and by **relaxing building standards**. Construction plans and low cost building materials can also be provided by technical aid organisations.

The cost of building materials can also be reduced by organised self-help among slum dwellers and squatters e.g. by

- **wholesale purchasing of building materials and sharing transport cost,**
- **producing blocks and bricks, window and door frames etc. from local materials in joint workshops,**
- **operating a second hand shop for recycled building materials.**

2.6. Access to social and educational services and recreation facilities

Other problems to be solved in slum and squatter settlements are in the fields of **social services** (e.g. day-care centres for children, clubs for senior citizens), **recreation facilities** (gardens, sports grounds) and **education and training facilities** (schools and vocational training centres, functional literacy classes, study circles, evening classes).

There are examples that large people's organisations provide such

services or lobby for such services to be provided by the city council or technical aid organisations.

On a small scale, corresponding to their limited means, inhabitants of slum and squatter settlements can join together in self-help organisations for providing such services and facilities in form of **clubs and associations** or as **branches of local credit unions or housing co-operatives**.

Where squatter settlements and slums are upgraded and the living conditions of the inhabitants are improved by external assistance or self-help, the former have-nots turned into modest home owners in an improved community are faced with a new problem they used to know from the other side of the fence:

How to keep new squatter families from moving into the site.

After this survey and analysis of problems which the urban poor in Third World cities are facing, the next step is to take a closer look at the concept of self-help and to discuss, which of the problems identified in this chapter can be solved by organised self-help.

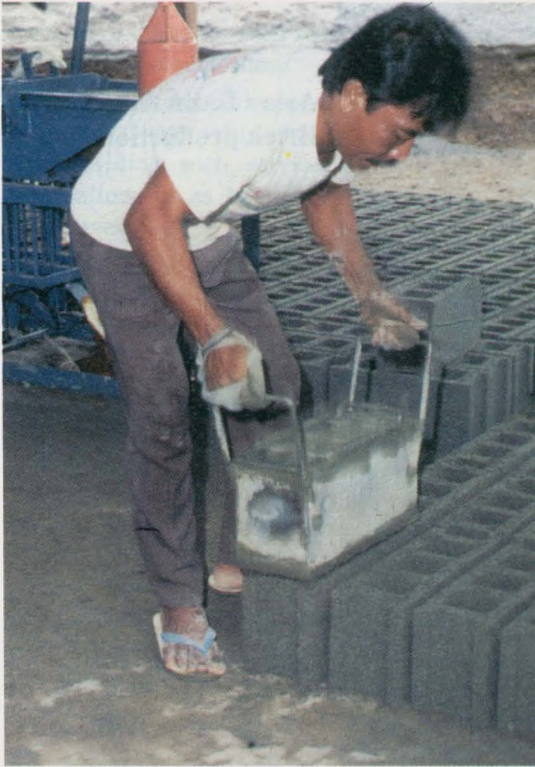


**Asia / Latin America:
Brick production**

Bricks are easy to make,
project in the Philippines
(Photo: DESWOS)



Self-made bricks from adobe in „El Alto“, Bolivia
(Photo: Dr. Hachmann, ICA Housing)



**Asia / Africa:
Brick production**

Self-made bricks in
the Philippines
(Photo: DESWOS)



DESWOS Project for the production of building materials in Malawi,
where people can learn how to make solid and durable bricks
(Photo: DESWOS)

3. Self-help and Self-help Organisations

3.1. The Meaning of Self-help

Self-help means to look after one's own affairs rather than waiting for help by others. A German proverb suggests that *„if you look for a helping hand, you find it at the end of your right arm“*. A general saying is *„God helps those who help themselves“*.

In many cultures, individual self-help means family self-help. **The extended family is a type of self-help organisation** in which pooling of resources, mutual aid and sharing are accepted rules.

Where the power and resources of the individual or the family are too weak to deal with the issue, the only way of solving the problem or accomplishing a certain task may be organised self-help in terms of **working together with persons from outside the family but usually inside the community: neighbours, colleagues, people belonging to the same ethnic or religious group or migrants originating from the same village, town or region.**

Persons knowing each other from continuous social contacts, having needs in common, who are ready to work together, to trust each other, to pool resources and to take joint risks are linked together by what in Credit Union terminology is called **„Common Bond“**.

3.2. Types of Self-help Organisations

Self-help organisations can be formed for different purposes:

Representation of common interests, advocacy groups or pressure groups which often stand for political ideas or programmes, people's organisations which for instance fight for human rights and civil society, against exploitation and exclusion of the poor. These organisations usually work under the legal form of association or federation and have a non-profit status, if they are officially recognised. If not, they work as informal organisations and are often considered illegal and subversive.

Legally recognised people's organisations are a well suited form of self-help organisation for claiming land security for slum-dwellers and squatters from local government authorities, they can **lobby for relocation areas near the city and the work places** in case of slum clearance and upgrading of squatter settlements, for **including slums and squatter settlements into town planning and into the systems of water and energy supply, infrastructure services, public transport**

as well as social, education and health services.

Savings and credit on a small scale, being a matter of mutual trust, can take the form of savings clubs or rotating savings and credit association characterised by their relatively small size, the close social relations among members and their informal nature. If savings and credit activities are carried out among a larger group of people and on a larger scale, there is need to formalise the co-operation, to open a bank account, to seek official recognition and **registration as a body corporate**. This can be done best by registering as a co-operative society or as a credit union (if there is separate Credit Union Legislation in a country). The typical feature of a credit union, which makes it very suitable for the purpose of saving for housing is the requirement of a common bond among the members. This means that **credit unions build on pre-existing groups of people who have interests in common, who know each other already and among which there is a certain measure of mutual social control:**

- **residential common bond**, i.e. people living in the same community,
- **work-place common bond**, i.e. people working for the same employer or in the same factory,
- **parish common bond**, i.e. people belonging to the same religious community, going to the same church, mosque or temple.

Pure saving for housing schemes like the British building societies or the German Bausparkassen may not be suitable forms of self-help organisations for the urban poor but rather for people with a stable income and the capacity of making regular savings over an extended period of time.

Working together in economic activities related to housing, development of sites, building construction, administration of common facilities can be organised in co-operative groups formed among the inhabitants of neighbourhoods, blocks or lanes. Unlike people's organisations and community organisations, in co-operative societies **the membership groups operate a jointly owned and used business undertaking which has to be financed, managed and controlled by the members and which has the task to provide services to them.**

There are **different types of co-operatives related to housing:**

- Land development co-operatives,
- building construction co-operatives providing serviced sites, core houses or complete houses for their members,
- self construction co-operatives, where members build their own houses,

- savings and credit co-operatives,
- home ownership co-operatives,
- tenants' co-operatives,
- estate management co-operatives and
- comprehensive co-operatives.

3.3. Co-operative Values, Principles and Practices

Co-operatives are self-help organisations having a peculiar structure and following a special philosophy expressed in co-operative values and principles.

The co-operative value system is defined by the International Co-operative Alliance (ICA) as follows:

Co-operative Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

With regard to their structure, co-operatives are composed of two elements: they are **groups of persons** who establish a **jointly owned business which the members** of the group **use to satisfy their needs** in a better way than they could do individually. Hence, **co-operatives can be described as user driven organisations.**

A **group** is defined as number of persons having common interests, needs and aspirations, who are willing to **work together for a common goal**: e.g. to improve their housing situation, to find access to loans and building material, to represent their joint interests in dealings with authorities.⁴

In case of co-operative self-help organisations, members have economic interests in common, which does not preclude other common interests (e. g. social, cultural) as well.

The means by which members of co-operative groups satisfy their common interests or meet their common needs is the **jointly owned business**, which the members as co-owners control.

Enterprises usually aim at making profit, growing and strengthening their position in the market. Co-operative business undertakings are different in the sense that their **main objective is to serve their members and to promote their members' interests.** This typically co-

operative goal can only be achieved if the co-operative business is operated according to sound management principles (i.e. making best possible use of available resources, operating at minimum cost with maximum result).

The peculiar feature of a co-operative business undertaking is that its effectiveness is not only **measured** by the amount of profit made at the end of the period (**business efficiency**), but **by the benefits offered or services rendered to the members of the co-operative group** (**member-oriented effectiveness**).

This means that the leaders of co-operative business undertakings have to pursue two goals at the same time:

to be efficient as a business and

to be effective in promoting the interests of the members by offering them

- **services or goods not available in the market or not accessible to members,**
- **services or goods at better prices, quality or conditions than in the market or**
- **reliable sources of supply or marketing channels and protection against unfair practices of competitors or business partners.**

Co-operatives are defined in the ICA's Statement on the Co-operative Identity of 1995 in the following way:

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise.

Co-operatives stand and fall with the active participation of their **members** who have to be motivated to **make contributions** towards financing their joint business under-taking, to participate in goal setting and decision making and to make use of the co-operative facilities. Persons join co-operatives and members remain in co-operatives, because they feel promoted by their jointly owned organisation in terms of economic advantages but also in terms of **trust, security and protection in the group**.

Membership in co-operatives is only meaningful if the advantages derived from membership (benefits) outweigh the contributions that members have to make (cost).

Co-operatives can only sustain, if they are supported by their members and can only grow, if they attract new members. Dissatisfied or disappointed members or members who do no longer need the services of the co-operative business undertaking have to be allowed to leave the co-operative. Dissatisfied members are detrimental to co-operative success.

Common economic interests of their members are required as a stable common denominator for keeping co-operative groups together. As long as co-operatives remain a special type of group enterprise **without political objectives**, it will be easier to keep unity within the group and to be accepted by public authorities as a business concern.

This is what the first principle of the ICA expresses:

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open too all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

In group-owned enterprises with a relatively large membership it is usually impossible that all members manage their enterprise jointly. It will be necessary to **elect or appoint and authorise individuals to serve as leaders or directors**, to act on behalf of the membership and to represent the organisation in dealings with third parties.

This does not mean that the **members** loose control of their jointly owned enterprise. They **keep certain key powers for themselves**, e.g. the rights

- to elect and to dismiss their leaders,
- to lay down and to modify the general goals of their organisation and
- to monitor the performance of their agents (the leaders/directors) elected or appointed by them to act on their behalf.

As individuals and human beings all members in co-operatives are considered to have **equal rights**, irrespective of their economic power and of the financial contributions to the co-operative enterprise. Members' rights to make decisions and to control their leaders are usually carried out by **voting in general meetings**, where the majority of members present and voting prevails. These particular features of co-operatives are expressed in the second principle of the ICA.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are organised in a democratic manner.

Co-operatives are **user-driven organisations** which means that members as the users of the services and facilities of their co-operative business undertaking are the dominating power in co-operatives.

In this respect co-operatives differ from ordinary commercial undertakings which are usually **investor-driven organisations**, which means that the contributors of capital set the goals of the organisation and control it.

In co-operatives, personal co-operation of members ranks first and capital contributions, although essential for building up the co-operative business undertaking, **assume a serving role**.

Capital contributions to co-operatives are not perceived as investments with a view to earn a high return on capital, but rather as a contribution to finance the joint facilities for the duration of membership. This is why in co-operatives **share contributions are paid back to members upon withdrawal at par value**.

In co-operatives, capital is deprived of its attributes of power:

- voting rights follow the rule of „**one member, one vote**“ and
- profit distribution as a reward for capital contributions is expressly limited.

In co-operatives, profit in terms of excess of income over expenditure is called „**surplus**“ and is either **reinvested** in the joint business undertaking, **kept in reserves** or **paid back to members** in proportion to their business done with the co-operative enterprise, giving back to members what they had paid in excess or received too little in their dealings with their co-operative enterprise. Such distribution of surplus to members, called „**patronage refund**“, allows the co-operative to offer services near cost. These ideas are expressed in the third co-operative principle of the ICA.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of the capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition for membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

For decades **co-operatives** have been created as part of development schemes or political programmes to **serve as development tools** in the hands of government authorities, development agencies or projects.

Many of these structures created in a top-down manner were co-operatives only by name, with compulsory membership or attracting members by offering artificial incentives like subsidies, tax exemptions, soft loans or other advantages.

These **pseudo co-operatives** were not conceived as self-help organisations but rather as conduits for development aid or as instruments for the execution of government plans. Such organisations failed to mobilise active member participation and resource commitment on the part of the members.

As a reaction to past experience and using a new global political climate in favour of private initiatives and self-responsibility of economic actors, the ICA agreed in 1995 to introduce a new (the fourth) principle, or rather to re-emphasise an old experience, namely that **genuine co-operatives can only develop out of their own strength, if they are allowed to work according to their own rules and to pursue goals set by their own members.**

This does, however, not prevent co-operatives from working together with government agencies or development programmes and to enter into alliances with commercial enterprises or other organisations, provided that co-operatives **retain their autonomy and remain independent.** This is what the fourth co-operative principle of the ICA stipulates.

For most people of limited means, **family solidarity** is an essential method of survival, **following traditional rules of mutual aid and sharing in case of need.**

4th Principle: Autonomy and Independence

Co-operatives are autonomous self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

Working together the co-operative way is different because it means working with persons in the neighbourhood or with colleagues at the workplace, who have needs and interests in common but who are not accustomed to co-operate with each other in the economic sphere and to trust each other.

In co-operatives, group solidarity is not based on family ties but on agreement. Persons intending to join co-operatives and members of co-operatives must know their rights and obligations in their new organisation. **They must learn how to work together and how to balance self-interest and group solidarity.**

Leaders of co-operatives are entrusted with powers to be exercised on behalf of the members. They **must learn** how to use these powers wisely and **how to run a democratic business organisation.** Co-operative leaders and managers must also be aware of their responsibilities towards the members from whom they derive their powers and to whom they are accountable.

Rules governing these matters are laid down in the fifth co-operative principle of the ICA.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

Pooling resources and gaining strength by working together in an organised way are strategies not limited to individuals in their primary co-operatives. The same principles are valid for all co-operatives at all levels. This is expressed in the sixth co-operative principle of the ICA.

By joining forces with other co-operatives and establishing secondary co-operatives (i.e. co-operatives of which members are co-operatives), the advantages of primary co-operatives: relative

smallness, local knowledge and closeness to members can be combined with the advantages of large scale enterprise of co-operative unions or federations: economies of scale, market power and professional personnel, working for the benefit of affiliated primary co-operatives.

6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

Finally, co-operatives do not exist in isolation. They are social and economic institutions operating within a community. Co-operatives benefit from their socio-economic surroundings by using infrastructure, facilities and services provided by the community and by other public authorities. In such a **give and take situation**, co-operatives cannot escape from their responsibility for the common cause.

Despite their orientation towards serving the interests of their members first, they cannot ignore the needs of the community in which they operate. Yet, as a member-driven organisation, the members of a co-operative have the final say in how to use the resources of their co-operative. Only they can decide whether and to what extent resources of the co-operative shall be used for the development of the community in which the co-operative operates.

The seventh co-operative principle of the ICA was newly added to the list of principles in Manchester in 1995 to counterbalance egoistic trends in co-operative self-help organisations (group egoism) and interests in common benefit, which should not be imposed upon co-operatives from outside, because of the risk of turning co-operatives away from serving mainly their members and transforming them into general interest enterprises. **In co-operative self-help organisations it must be left to the members to decide for what purposes their resources shall be used.**

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

Co-operative principles are no hard and fast rules that must be adhered to by the letter. They are guidelines by which co-operatives put their values into practice.

Co-operative principles apply world wide and set general standards which allow to distinguish co-operatives from other forms of organisation. They are yardsticks by which individual organisations are measured when their co-operative character has to be determined.

Practices to implement co-operative principles in line with co-operative values are **practical rules of application** which may vary from place to place, from one type of co-operative society to another and according to times and circumstances. E. g. in the early days of **Raiffeisen** co-operatives in Germany, **self-responsibility of the members for their agricultural and credit co-operative meant unlimited personal liability of each member for the debts of their co-operative society.** Today in housing co-operatives the liability of members for the debts of their society is either limited by shares or by a certain sum, as laid down in the by-laws of the society: liability by guarantee. Or limited return on share capital may be a maximum percentage fixed by the co-operative law (e.g. 6 per cent) or pegged to another, variable rate (e.g. not more than 2 per cent above the current interest rate for post office savings deposits).

In both cases, co-operative practice is in line with co-operative values and principles and takes account of present day conditions of existing co-operatives.

3.4. Self-help and External aid

Helping other to help themselves is not contradiction in terms but a tested concept successfully applied for 150 years, provided that certain rules are respected:

External aid has to be used to build up self-help potential and capabilities: To spread new ideas on how to work together, how to react to challenges of urban life, how to make best possible use of available resources, how to generate new resources, how to fend for one's own rights using the methods of organised self-help. In short, **external aid is mainly needed in form of human resources development, information, education, training, advice and technical support.**

Experience has shown that in the context of self-help promotion **financial assistance is a dangerous field. The most serious danger is to replace rather than to encourage self-help, to develop a beneficiary mentality** (and a donor mentality on the part of the aid organisation) rather than to strengthen the spirit of self-help, self-reliance and self-confidence. As Alexander Laidlaw put it: „Government money is the kiss of death to co-operatives“. Co-

operative self-help organisations risk never to acquire or to lose their autonomy and independence, if they rely too much and for too long on external aid.

Ideas of self-help promotion are usually put into practice by parent organisations or NGOs, **which may often be better suited than government services** to present a convincing and realistic concept for the development of grass root organisations and to **identify, train and employ primary and secondary promoters**. These promoters in turn **give guidance, train leaders, second-line leaders and managers, offer technical assistance** (services of planners, architects craftsmen) and **assist representatives of self-help organisations in negotiations with public authorities, financial institutions, producers of building materials, aid organisations and in dealings with the media and with the public.**

Experience has shown that there is a **narrow margin between over-promotion and under-promotion** and that it is essential to provide external aid with the right intention and to define the right amount and duration of external assistance for each individual self-help organisation.

4. Why and when form a co-operative self-help organisation?

A self-help organisation should only be formed for good reason. **Organising group activities is always connected with efforts and cost.**

Efforts to bring people together, to motivate them to continue working together, to integrate new members into the group so that the group grows and to direct the ideas of individuals towards achieving common objectives following a common plan.

To run an organisation means to incur **cost**: Communication cost, organisation cost, cost of maintaining an office and of meeting legal and administrative requirements (e.g. to keep books, to submit annual reports).

4.1. Socio-economic reasons for forming a self-help organisation.

SHOs should only be formed if there is a need and a good reason for it. Promoters and founder-members of SHOs will have to ask themselves: Is there a topical problem that can be solved better by organised self-help than by individual self-help or by using services offered in the market? If so, how could this be done (**develop a project idea**).

The first requirement for forming a self-help organisation is the **formation of a group** of people interested in finding a solution for an identified problem.

(a) Definition

A group is more than the mere addition of a number of persons. As already stated earlier, a **group is an entity composed of several individuals having interests in common and determined to act jointly in pursuance of a common objective.**

Distinct features of a group are:

- The existence of one or several **common bonds** which link the members of the group together, e.g. all persons living in one village or neighbourhood (residential common bond), all persons working in the same firm (work-place common bond), all persons exercising to the same profession (professional common bond) or all persons belonging to the same religious community (religious common bond).

- Group links of a **certain duration**, as opposed to gatherings for a specific purpose or event.

Individuals are not mechanical parts but organic members of a group. There is interaction between the group and individuals forming the group: **The members influence the group and the group influences its members**. Some compare this relationship with that of a tree and its leaves. A tree needs leaves to survive and grow, but the leaf draws its strength from being part of the tree. The single leaf dies when separated from the tree while the tree can live on and grow new leaves. However, a tree losing all its leaves also dies.

A group develops its own identity, more or less distinct from its members. A „**We-Feeling**“ develops side by side with egoistic feelings and self-consciousness of the individual member. „**We do something for us**“:

(b) Classification

Groups can be subdivided into different categories, depending on their **size** and **strength**, which in turn depend on the **motivation of the members** for joining the group, on the **advantages that may result from membership** (e.g. cost-benefit considerations), on the reasons and opportunities to participate in group action and on the reasons for remaining a member of a group.

For promoters who want to encourage the formation of self-help groups, it is necessary to know something about **group structures, types of members and leaders** and **group dynamics**.

In **small** (face-to-face) **groups** there is a close, natural and real relationship between the members, who meet frequently, know each other well and develop a **feeling of belonging** (also referred to as peer-groups or primary groups).

In **large groups**, the distance between the individual member and the group grows, **close personal links among the members are lacking**, membership tends to be anonymous and members' **interests tend to be more varied** (heterogeneous). Such groups are also referred to as secondary groups.

Strong groups are characterised by a strong **group spirit** of its members. Members think and feel as a group, they need each other, are ready to help each other and demonstrate **group solidarity**. Usually, small groups tend to be strong, but not every small group is strong.

Weak groups are characterised by a **geographic distance to their**

members, the common objectives are not of vital importance for the individual member, the **feeling of belonging (we-feeling) is weak**. Large groups tend to be weak, however, with systematic and continuous efforts to enhance group spirit, large groups can be stronger than small groups.

(c) Motivation of members

Motivation for joining a group can be based on:

- **economic reasoning**,
- **social-psychological motives** like isolation, exclusion in times of rapid change, search for security and protection, independence and power, access to innovations, information, prestige.

Motives may overlap and change.

In groups based mainly on economic reasoning, the personal commitment of the members may be limited.

(d) Strength of groups

Size and strength of groups depends on or may be influenced by several factors:

- number of potential members,
- nature of group links,
- readiness of persons to join the group and to accept group discipline.
- area of operation,
- limitations of membership (both for economic and/or social or legal reasons),
- openness to accept new members,
- the market situation,
- types of services offered by the joint operations of the group,

(e) Internal structure of groups

Groups may have different internal structures:

- **democratic**, i.e. with **voluntary membership**, based on equality (one member - one vote), decision making by consensus or **majority vote**. with elected leaders accountable to the members (democratic control),
or
- **autocratic**, i.e. with **automatic membership** (e.g. all adult persons in a village or neighbourhood), governed by a self-styled leader

according to the **principle of order and obedience**, with the leader acting as an uncontrolled trustee.

In each group there are **different types of members and leaders**:

(i) With regard to **members** there are

- **an active nucleus** of positive, well meaning followers, ready to accept suggestions made by leaders, with a strong „we-feeling“
- **indifferent (centrifugal) members** who are easily dissatisfied and frustrated and tend to leave the group and
- **an opposing group** of active opponents of the leaders with a tendency to set up factions within the group.

The tasks of group leaders are to detect and remove causes for dissatisfaction and to integrate opposing members into the group. e.g. by giving them positions of responsibility.

(ii) With regard to **leaders** there are:

- **autocratic leaders** who usually work with high efficiency, who claim obedience and confidence, however, in **the absence of internal control**, much depends on their moral integrity and devotion to the common cause,
- **democratic leaders** who often operate with high creativity but reduced efficiency, legitimised by elections and subject to democratic control by the members and
- **liberal (laissez-faire) leaders** with usually low efficiency.

Especially in small groups there is often one person keeping the group together.

In locally rooted groups strangers can seldom be found in leading positions.

In large groups frequent changes of leadership are possible and likely.

The rewards of group leaders are usually non-monetary, social rewards (e.g. public recognition and esteem).

(f) Group spirit

Group spirit is not merely a catchword but a reality. Strength or weakness of group spirit may vary and influences the stability and internal cohesion of the group.

Group spirit is strong if there is

- **group consciousness,**
- **community of thought,**
- **submission of individual goals to group objectives,**
- **reduction of egoism in favour of group solidarity.**

Group spirit is enhanced if long term advantages can be derived from membership.

(g) Membership and feeling of belonging

Membership in a group is a clearly defined category to be determined in an objective manner: admission to and termination of membership as shown in the records. On the contrary **group consciousness** is a (subjective) **feeling of belonging** which may increase or decrease without being noticed from outside.

A person may be a (formal) member without having a feeling of belonging, while another person may feel to be (subjectively) attached to the group without being a formal member. Accordingly, membership in a group and feeling of belonging to the group are two different things. The goal of group leadership is to turn as many group conscious persons as possible into members and to make all members group conscious. To achieve this objective, group leaders have to work continuously towards **integrating members into the group**:

- **To maintain the group character and keep the group spirit strong,**
- **to hold back individualistic tendencies.**

This is more easy in small, strong groups with high group affinity of the members and strong leadership (**natural integration**).

In large groups organised for specific (usually economic) purposes group integration requires continuous information, education and training of the members as well as deliberate efforts to create and strengthen group spirit and group solidarity (**organised integration**).

Once a group has been identified and a project idea has been developed, a socio-economic survey has to be conducted to assess the feasibility of the project, to take stock of the locally available resources and to learn about the attitude of the public authorities, local leaders and of the public towards organised self-help and co-operative activities.

Forming a self-help organisation is a learning process. The group members have to be confronted with new ideas, new knowledge,

examples of successful attempts to solve similar problems by way of organised self-help elsewhere (**exposure training, i.e. field visits**). In short, **they need an external promoter to do all this.**

However, such learning process is not a matter of one-way knowledge transfer from an external „promoter“ to local „beneficiaries“. It is a process of **knowledge-sharing among partners**, each of whom knows something but none of whom knows enough to create a successful SHO alone. But it is also a horizontal, participatory learning process in which local promoters and change agents spread their knowledge and share it with their fellow villagers or citizens.

4.2. What model to choose?

There is no single model for the development of self-help organisation that can be transferred from one country to another or even from one region to another. Experience has shown that self-help organisations differ even from one community to another. **To be successful in the long run, their economic and social purposes and their organisational structure must be direct responses to local problems and locally felt needs.**

Many informal SHOs are rooted in the local culture, follow their own norms. They are **based on the value system of the local people**, on indigenous patterns of human relations and social control. They are **flexible and unbureaucratic**. However, in many cases, slum dwellers and squatters, who have left their original communities have in some way lost their roots in urban surroundings. They are fully aware of the advantages and limitations of the indigenous organisations which may still be familiar to them, when transplanted into an urban setting and usually do not know much about „modern“ forms of self-help organisations. While indigenous organisations tend to be directed inwards, to their members governing the relations among them, problems of slum dwellers and squatters can often only be solved by entering into contact with external actors like government authorities, political institutions and enterprises, e.g. wholesalers of building materials or banks. But as a rule **there is little local knowledge and experience in dealing with public authorities, banks, the media and public opinion.**

The models to choose from are communal work groups, saving clubs, rotating savings and credit associations (ROSCAs), credit unions or co-operative societies, but where, like in the case of co-operatives and credit unions these organisational patterns are **rooted in a foreign**

culture or follow foreign norms and values, they either have to be adjusted to the local environment, to local needs and to the understanding of local people, or their members have to accept the „foreign“ models, norms and values as part of their (new) local custom, if they feel that these new patterns correspond better to present day needs than their indigenous organisations. Hence, the process of forming a self-help organisation has to start by discovering what already exists at local level and to study the local situation in depth.

It may be objected against this approach that developing anew what has already been discovered elsewhere and which could be copied means to reinvent the wheel. However, for the participants, **the process of discovery is the main part of the learning process**. This is an open learning process. Its course and outcome cannot be predicted and, accordingly, is difficult to plan.

4.3. The role of external promoters or „development entrepreneurs“

The necessary learning process can be initiated and facilitated by an **external promoter** who can act as a „**development entrepreneur**“, bringing new ideas and new methods of analysis to the local level. As a development entrepreneur he or she has to **play the roles of an innovator, facilitator and motivator**.

The external development entrepreneur acting as a motivator, facilitator and innovator plays an important role in the formation of co-operative self-help organisations.

The tasks of a development entrepreneur include:

- to discover self-help potential and prospective leaders of self-help organisations,
- to assist founder-members to lay a solid ground for the development and growth of the self-help organisation,
- to discover, in dialogue with the founder-members potentials for joint economic activities allowing to realise co-operative advantages and to develop project ideas,
- to help the founder-members to establish flexible organisational structures that allow to put the ideas into practice,
- to help the founder-members to create co-operative spirit enabling them to mobilise the resources of the members and to activate the potentials of the self-help organisation,

- to share his or her knowledge of management techniques with the founder-members and thereby assist the self-help organisation to develop and to survive.

Source: FAO: GACOPEA Guide 1993, pp. 21, 22.

But the articulation of development problems, their order of priority and proposals for solving them have to come from the future members of the planned self-help organisation themselves and in particular from local leaders or individuals who are willing individuals willing to act as **internal development entrepreneurs** and to initiate new lines of thinking and new patterns of organisation. Such internal development entrepreneurs are essential for the success of the proposed self-help organisation.

In this context Raiffeisen can be quoted with his advice to *„find first of all a person able to mobilise a group and to manage their joint activities and only then to encourage the development of a co-operative society around such person“*.

Forming a self-help organisation means to start a process of knowledge-sharing between external and internal development entrepreneurs.

As an innovator, the external promoter can

- **identify and train prospective leaders,**
- **spread the knowledge about the scope and advantages of organised self-help,**
- **persuade local people to discuss their problems with him or her,**
- **share his or her knowledge about new technologies, new products, access to information and to markets with local peoples while respecting their rights to decide their own things for themselves.**

As a motivator, the external promoter can

- **encourage local people to discover the advantages of co-operation** in dialogue with him or her, while **informing the future members** at the same time of the obligations and responsibilities which they have to accept, once their self-help organisation is formed, in order to make it successful,
- **help to generate a creative spirit enabling the local people to overcome old prejudices and fears,** to break the vicious circles of poverty, ignorance, fear and weakness, to identify and mobilise local resources and to find new solutions to old and new problems.

As facilitator, the external promoter has to

- **spread knowledge about new forms of SHOs and how to establish them,**
- **be present among the target group and to give guidance upon request,**
- **assist in establishing contacts with specialised organisations, markets, credit institutions and public authorities.**

The external promoter must know his/her roles as innovator, motivator and facilitator and stick to them. **The decision to form a self-help organisation has to come from the future members, after knowing the advantages and problems of such a decision. It is essential to insist on self-management and self-control from the outset, without direct external interference and control, even at the cost of slowing down the speed of development and to tolerate mistakes (which may be important as one way of learning from own experience).** This was stressed already in the ILO Recommendation n° 127 of 1966 concerning the Role of Co-operatives in the Economic and Social Development of the Developing Countries, where it was said *„the management of a co-operative society must be from the outset the responsibility of the members“*.

The learning process leading to the formation of a self-help organisation lasts as long as the future members need to gather the necessary information, to discuss alternative solutions, to come to a well founded decision and to understand the rules of their new organisation. **Attempts to speed up this process artificially (e.g. by making unrealistic promises or by offering incentives) is the most common mistake made in forming self-help organisations.**

To sum up this point, the following general conclusions can be drawn: Before starting to form a co-operative self-help organisation, **the common needs of the prospective members have to be analysed.** This has to be done under the aspect of **determining whether needs so identified are**

- **common**, i.e. felt by a sufficiently large number of persons,
- **pressing**, i.e. felt to be urgent but are not met by existing offers on the market,
- **suitable for co-operative self-help action**, i.e. can be met within a reasonable time, at reasonable terms, with reasonable effort and can be built up gradually with a realistic chance of success and without requiring a large initial capital.

The main issue to determine is **whether there is a real need for forming a co-operative self-help organisation.**

Latin America: Community centre and brick production



Construction of the community centre in Talca, Chile
(Photo: Dr. Hachmann, ICA Housing)



Brick production in
Talca, Chile
(Photo: Dr.
Hachmann, ICA
Housing)

Asia / Latin America: Education



Education as an important part of development in the Philippines
(Photo: DESWOS)



School education in „El Alto“, Bolivia
(Photo: Dr. Hachmann, ICA Housing)

4.4. Assessment of opportunities and scope of possible co-operative activities (economic survey)

Once the need for forming a co-operative self-help organisation is established, the next step is to assess the opportunity and scope for the intended co-operative activity.

To undertake this task, **information on the economic situation** prevailing in the proposed area of operation and the intended field of activity is required.

(a) **External data** to be investigated are:

- **availability of land** or possibility of acquiring use rights in land,
- **cost of land** or long term leases and possibilities for concessional rates or other ways of achieving land security,
- **cost of services of architects and craftsmen,**
- **cost of public services** like water supply, drainage, garbage collection, electricity supply as well as of health, social and educational facilities,
- **cost of building materials, sources of supply, competition among suppliers,**

(b) **Internal data** to be investigated are:

- **demand and purchasing power of people living in the community or settlement,**
- **employment and income situation of people living in the community or settlement.**
- **Level of education** of the inhabitants of the community or settlement, their knowledge and understanding of the rules governing organised self-help and of the co-operative principles,
- **availability of local leaders and of people willing to participate actively** in the proposed new organisation and to stand for election to the offices of board members, committee members and internal auditors
- **volume of pooled demand** (in terms of land, building materials, services of architects and craftsmen),
- **capacity of members to make savings,** to pay service charges and to contribute labour,

- **existing debts** and obligations to pay back loans (e.g. to money lenders, shop keepers, relatives),
- readiness to comply with the by-laws of the proposed co-operative society,
- **amount of funds that can be raised internally and externally to finance the joint project and how much that would cost**, however with the required prudence regarding the effects of external on the autonomy and independence of the SHO,
- **possibilities of linking up with other co-operatives** in the area of operation or region.

4.5. Analysis of the environment effecting the formation and operation of a co-operative self-help organisation

Co-operative self-help organisations are open systems, i.e. they are not existing in isolation but in permanent interaction with their surroundings.

(a) Social environment

Co-operative self-help organisations are embedded in the community, district or region in which they work. They are social and economic entities and as social entities they are influenced by the social relationships existing in their area of operation and by the cultural environment reflected in norms and values adhered to by the local population.

Promoters and founder-members planning to establish a co-operative SHO have to know what kind of social organisations do already exist and may enter into competition with the proposed co-operative SHO. They must know what are the norms and values influencing the way of thinking and acting of the people living in the proposed area of operation of the new co-operative society. They have to identify influential persons, opinion leaders and traditional authorities and find out their attitude towards the proposed project.

Another aspect of the social environment are social stratifications that may exist among the prospective members of the self-help organisation. It will be important for the promoters and founder-members of co-operative SHO to know the attitude of the future members towards an organisation based on the principles of open membership, democratic control and equal rights of all members (one member - one vote).

If the co-operative principles of **open and voluntary membership** is to applied, the proposed SHO must be open to all persons who wish to join, provided they meet the requirements that are defined in the by-laws of the organisation. When drafting the by-laws for the new co-operative SHO the promoters and founder-members must take this aspect into serious consideration.

A closed co-operative society is not only in contradiction with the co-operative principles but it has limited potential to grow. A co-operative SHO open to all may attract persons having different needs, goals and aspirations. This may result in conflicts within the membership group. Hence, the definition of conditions for membership have to be carefully drafted taking account of the open membership principle and the need to bring together persons with common needs, common objectives and ready to work together in their joint organisation.

Finally, NGOs existing in the area of operation of the proposed new co-operative SHO are also important parts of the social environment. Promoters and founder-members should take a close look at all NGOs existing or operating in the proposed area of operation in order to assess with which NGO the new project could establish linkages, **from which NGO it could obtain advice or assistance.**

(b) Economic environment

The need to analyse the economic environment in which a co-operative SHO plans to work has already been discussed under 4.4. The issue to be added here is:

- the economic environment created by government's economic development policy, e.g. **promotion and protection of new organisations providing services which discharge the government of some of its tasks**, such as access to public land, the right to keep simplified accounts, tax exemptions because housing co-operatives are considered as **organisations working in the public interest.**

The economic environment also includes institutions established to promote low cost housing and infrastructure development in the area of operation of the proposed co-operative SHO.

- The chamber of small scale and cottage industry,
- co-operative federations and unions,
- development banks and other banks,
- advisory and audit services, and
- information centres.

(c) Administrative environment

A new co-operative SHO will have to comply with administrative rules and regulations governing activities in its areas of operation. It will have to **register**, if it wants to be officially recognised as a legal entity, to limit its liability, to contract loans, to be included in town planning etc.

The promoters and founder-members of new co-operative SHOs must study the administrative environment and **establish contacts with the relevant local, district or regional authorities at an early stage of the formation process** so as to meet all formal requirements, to establish good working relations with the relevant government officials and to lose no time by delaying the application for registration, and obtain the permission to start the business.

The administrative environment includes all kinds of services that may be useful, e.g. for analysing available natural resources, for obtaining advice and support.

(d) Legal environment

Promoters and founder-members of co-operative self-help organisations must know the legal environment in which they intend to operate. A key decision to be taken during the formation process is the **choice of the appropriate legal pattern**. This choice has far reaching effects on the future chances of the proposed co-operative SHO (for pros and cons of the different legal patterns from which to choose see Annex 1).

Another aspect of the legal environment is the **tax law**. The choice of the legal pattern and the way of carrying on the proposed joint economic activity must be planned in such a way that all **fiscal advantages** offered by the state are used in the best possible manner.

To know the legal environment also means to know the legal rights and obligations of co-operative SHOs, their leaders and their members. This is important when drafting the by-laws of the new organisation and when defining the position of the new organisation vis-à-vis the government at different levels, the competitors, the creditors and the general public.

(e) Political environment

Originally, one of the co-operative⁴ principles was „political neutrality“. This principle was struck off the list of co-operative principles of the ICA in 1966 for the reason that it was considered impossible to be politically neutral. It was argued that even to state political neutrality usually amounts to a political statement.

However, what was really meant by the old co-operative principle of political neutrality was that co-operatives should concentrate on their economic and social functions and should **stay away from party politics. In modern co-operative thinking the word „neutrality“ has been replaced by independence and autonomy.** This idea has been taken up in the new 4th co-operative principles of the ICA of 1995.

From this follows that **promoters and founder-members should study the existing political environment, the political forces present in their area and field of operation.** They should seek good and correct working relations with the representatives of these political forces but they should be careful not to lose their independence as a private and autonomous self-help organisation having mainly economic and social objectives. **Otherwise, changes in policy or politics would have direct influence on the existence of the co-operative self-help organisation.**

(f) Natural environment

Promoters and founder-members of co-operative SHOs should **identify suitable sites for construction of dwellings, for relocation and for over spill areas** in case of upgrading of slums and squatter settlements. Such areas have to be suitable for human settlement (unpolluted soil, availability of water and drainage, safe against floods and land slides, within reasonable distance from work places). Building materials must be checked for their safety (e.g. asbestos sheets, paint, plumbing). Furthermore, promoters and founder-members must analyse the attitude of people living in the proposed area of operation towards **environment protection.** When the co-operative principle of „community responsibility“ was discussed in the drafting committee of the ICA in 1993/1994, one version of this principle included the statement that **co-operatives respect and protect the environment.**

Many individuals are deeply concerned when watching helplessly how the environment is damaged or destroyed by unscrupulous firms and ignorant consumers.

This concern for the protection of the environment and for the chances of the future generations of mankind has become so strong that it has **turned into a felt need to organise joint activities to stop the destruction of the environment.** For promoters and founder-members of co-operative SHOs this means that persons are willing to pool their resources in order to produce and use equipment for generating energy from renewable resources (solar and wind energy, biogas, hydroelectricity), for recycling of waste products, for ecologically safe

products and new technologies to save energy and raw materials and to avoid waste. However, such activities require the investment of funds and may well be beyond reach of members of self-help groups in their formative stage. This does not exclude to plan such activities at a later stage.

4.6. Analysis of previous experience with organised self-help

Self-help organisations are as old as mankind. They exist everywhere, sometimes visible, sometimes invisible or hard to discover. As already mentioned before, when planning to establish a new co-operative SHO it is important to know what kind of organisations do already exist in this area and who are their leaders. **Have there been earlier attempts to form SHOs and in particular co-operative societies?** How did this work? Which were the problems encountered and the solutions found? Who were the leaders?

Studying existing local organisations and the development of former SHOs in the area of operation of the proposed new co-operative society has certain advantages and adds to the understanding of local self-help potentials, assuming that:

- **People know best what their development problems are.**
- **They are able to form their own SHOs with or without external aid and to set the rules for co-operation.**
- **They know what kind of external help they need.**

Their difficulties start, where their knowledge based on their own experience is insufficient to cope with new problems and with a rapidly changing environment, beyond their experience and knowledge.

In such case, **people depend on experience and knowledge from outside**, provided by external promoters, advisers and „development entrepreneurs“. This is where knowledge-sharing and co-operation in developing new knowledge adjusted to both the local situation and the requirements of a changing environment become important.

To investigate local knowledge about informal SHOs and good or bad local experience with SHOs introduced from outside will give promoters valuable insight in how local people think, act and react.

5. Information required before starting a co-operative self-help organisation

1. *Location of proposed self-help organisation*

At which **location** and approximate site and in which area will the proposed self-help organisation provide services to members?

2. *Kind of co-operative self-help organisation required*

What shall be the **main purpose** for which the self-help organisation is to be organised?

3. *Reasons*

Give detailed **reasons** for forming the co-operative self-help organisation.

4. *Source of membership support*

Describe briefly the main occupation or employment, or residential area, or other **bond of association** or occupation of the people expected to become members.

5. *Attitude towards community projects*

Do the people referred to in item 4 work well together in voluntary projects to benefit the community or area in which they live, or the occupational, employment or other group to which they belong?

6. *Expected membership*

(a) Number of persons ready to join now.

(b) estimated number of persons expected to join within the first year of operation.

7. *Leadership*

Are there persons in the group desiring to organise who are prepared to give gratuitous services to start the self-help organisation and to assist in the operation?

(List a few of them).

8. *Officers*

Are the persons mentioned in item 7 prepared to act as members of the committee of management and do they understand what their duties will be?

9. **Management**

If the co-operative self-help organisation is registered, will the services of a

competent manager (or secretary, treasurer or secretary-treasurer) be available?

(a) Name

(b) Experience and training

(c) Will he or she be able to keep or supervise the keeping of accurate books or records?

10. **Office space**

If office space, a building or equipment is required for the purposes of the society, how will this be obtained and financed?

11. **Financial participation by members**

(a) Will members provide share capital or other funds to start the society and continue to give it financial support after operations commence?

(b) Value of each share

Total expected to be paid on shares and/or subscriptions when operations commence

(c) Total paid-up membership fees expected when operations commence

(d) From what source of income will members provide the capital required? (E.g. salaries, wages, business).

(e) Are there other forms of inputs by members? (E.g. working hours).

12. **Educational meetings**

Have educational meetings been held to discuss the proposed self-help organisation, its operations and its benefits to members if they support it?

(a) If so, how many?

(b) Average number of attendants

(c) Speakers

13. **Discussion groups**

Have study and discussion groups been organised to involve and inform people who wish to become member?

- (a) If so, how many?
- (b) Do members understand their role (rights and obligations) in the self-help organisation? Have they developed group consciousness?
- (c) Have model by-laws been discussed?
- (d) Discussion group leaders

14. *Affiliation to co-operative federation, union or other institution*

Are there co-operative federations, unions or other institutions to which the proposed co-operative self-help organisation could affiliate?

15. *Planning and technical advice*

Has advice been obtained on whether planning of the proposed self-help organisation seems adequate and whether it has reasonable prospects of success if the members give it their support? If so, by whom?

6. Five Steps to Form a Co-operative SHO

Forming a SHO is a learning process for which there is no short cut. Usually this process is carried out in several steps which are described below:

Step 1: Launching the Idea

One or several individuals or a group meets with a promoter or with representatives of a self-help promotion agency to discuss the chances of solving pressing problems by forming a co-operative society and **seek advice how to proceed**.

The initiators meet in discussion groups to learn more about group dynamics, co-operative ideas and co-operative principles.

Step 2: Establishing a Formation Committee

A nucleus of founder members, i.e. persons determined to form a co-operative society, **start to analyse the present situation**. For this purpose they

- **discuss common needs**,
- identify needs that can be met by co-operative action,
- **assess the feasibility of the project**, required and available resources, calculation of the costs of the project and of the capacity of the prospective members to make contributions,
- draw up a tentative **work plan** for the first year,
- discuss and draft by-laws in line with the requirements of the relevant law in force (usually the Co-operative Societies Act) **using model by-laws as a guide (without simply copying them)** or better still using a guide. „How to make by-laws?“

Step 3: Convene and Hold Formation Meeting

The formation committee

- decides on time and place of the formation meeting, after verifying that the date does not coincide with other important meetings in the community,
- sends invitations with an agenda to all persons interested to become members or **spread the information on date and place of the meeting in any other form**, which is particularly important if some or all members are illiterate.
- holds the formation meeting (elect chairperson, secretary, keep minutes).

The formation meeting

- decides to establish the co-operative society,
- discusses and adopts the proposed work plan,
- discusses and adopts the proposed by-laws,
- establishes a list of the founder members, who sign the adopted by-laws,
- elect the first office-bearers (board of directors or management committee and, if prescribed or felt necessary, an internal control body).

Step 4: Prepare the Ground for Registration

The elected leaders of the yet unregistered co-operative society have to

- **organise discussion groups** with among themselves and with prospective members on the future activities of their co-operative,
- **attend leadership training courses offered by NGOs or co-operative apex organisations,**
- establish an **education committee** to organise member education
- **recruit new members** and organise pre-membership education courses,
- discuss and plan the organisational set-up of the co-operative society,
- **identify persons who could act as manager and/or accountant** of the co-operative society,
- plan the joint activities and the services to members, **calculate the costs and draw up a trial balance,**
- **prepare the application for registration** and the accompanying documents (minutes of the formation meeting, lists of office-bearers and members, draft by-laws adopted during the formation meeting and signed by the founder-members, feasibility study and work plan for the first year).

The authority in charge of registration will usually conduct a pre-registration audit.

Note: It is extremely risky to start operations of the co-operative society before registration, because

- there will be **no legal protection** or official recognition of the society (except in countries where there are special legal provisions for unregistered or registered pre-co-operatives),

- there will be **no limitation of the liability of those acting** in the name of the unregistered society,
- there will be **no access to banks** or other institutions.

Step 5: Registration

Incorporation of the organisation as a legal entity in its own right by registration in a public register. Commencement of operations with official recognition and under protection of the law.

Part II: How to Run a Co-operative SHO

7. Organisational Structure

Each SHO be it a society, association or co-operative society has to be organised in such a way that decision-making within the membership group, management of the affairs of the group, representation of the group in dealings with third parties and member control over the activities of their elected representatives can be safeguarded. In case of co-operative societies, the organisational structure is more complicated than in simple societies and associations, because **in co-operatives the membership group establishes a jointly owned business unit**, which needs to be managed in an efficient manner and to be controlled effectively.

In every case, three functions have to be fulfilled by every SHO, namely:

- **Deciding basic and important matters** affecting the entire membership group and the existence of the organisation as a whole,
- **conducting the day-to-day business**, organising group activities, keeping books and records etc. and
- **carrying out control** over the performance of the organisation in general and over the activities of the governing body and of the management in particular.

7.1. Decision-making and governing bodies

These tasks are usually divided among two bodies: the **general meeting of members** and the **committee of management or board of directors**. In case of co-operative societies, where members establish and operate a business unit to serve their needs, a third body may be required: a **supervisory or audit committee** to carry out control on behalf of the members. Depending on the needs of the members, the size and the common objectives of the group, **other committees** may be formed for specific purposes, e.g. a credit committee in a credit union, an education committee, a women's committee, an arbitration committee.

(a) General meeting of members

In all democratic organisations, the general meeting, i.e. the meeting to which all members are invited, is the **supreme authority**. All issues of fundamental importance for the group as a whole have to be decided in

general meeting, e.g. making and amending by-laws, election and dismissal of leaders, decisions on merger or affiliation to other organisations. Usually the general meeting is convened once in every year (**annual general meeting**, AGM). But circumstances may require more frequent general meetings (**special general meetings**).

(b) Committee of management or board of directors

The committee of management or board of directors is the governing body of a SHO composed of a **small number of persons elected by the members** from among themselves, to whom the conduct of the current affairs between general meetings is entrusted. Elected committee or board members usually **work on an honorary basis**, which means that they carry out their duties during their spare time and that they are not paid for their work. Where the part-time or full-time services of professionals are required to manage the affairs of the group, such **persons are recruited by the committee or board and are supervised by and accountable to them**. Especially in co-operative societies, **where the group operates a business unit, such employed managers and supporting staff are needed and add considerably to the organisation cost**.

(c) Internal control body

In societies and associations, internal control over the leadership is usually carried out by the members in general meeting, where members have the right to ask questions and clarifications, where members can refuse to discharge their elected leaders from their responsibility for the period under review or can vote them out of office. However, where the SHO enters into business with its own joint undertaking, like in the case of co-operative societies, it may be necessary to exercise more frequent control than once in every year. In this case a supervisory or audit committee may be elected by the members in general meeting from among themselves to supervise the performance of the management committee or board of directors and of the manager and to report back to the members in general meetings.

(d) Sub-groups and sub-committees

Every SHO is free to form sub-groups e.g. for residents of one street or compound, for members belonging to special age groups or professions and to elect or appoint sub-committees for the purposes already mentioned earlier. **The advantage of having such sub-groups or sub-committees are to establish closer ties among members in smaller groups and to offer more members the chance to play an active role within the organisation**. On the other hand, such sub-structures need

to be administered and supported by the group leaders in order to be effective and therefore increase organisation cost.

7.2. The role of external advisors

The role of external promoters and „development entrepreneurs“ in forming co-operative SHOs has already been discussed earlier in this manual (supra 4.3.). External advisers may also be of use during the day-to-day operations of SHOs. However, as experience has shown, **external advice can create dependence on external resources** in a similar way as external funding. Therefore, external advice **should be given only upon demand and only in form of „knowledge sharing“**, which means in such a way that the competence and experience of the local leaders and managers are systematically enhanced.

7.3. External audit

Simple and small SHOs in form of societies and associations usually do not handle large sums of money, do not work with borrowed funds and do not enter into business with third parties. Therefore, they do not require external audit which aims at protecting members, creditors and the public against negligence, malpractices and fraud on the part of managers or directors of business organisations. Co-operative societies carry on business with third parties and accordingly are subject to external audit which may be carried out either by co-operative auditors of a government department or co-operative audit federation or by certified public accountants (CPAs). **Annual or biannual audit is expensive and adds to the organisation cost.**

This survey of the organisational structure of SHOs in general and of co-operative societies in particular shows that it is advisable (because it is more easy and less expensive), to start SHOs among slum-dwellers and squatters in a simple form like a society or association, which **may be converted into the more complicated form of co-operative society** whenever this is required by the nature of the joint business activities the self-help group wishes to undertake.

The composition and working of the different decision-making bodies within SHOs will be discussed later in some detail

8. How to Become a Member

8.1. Conditions for membership

One of the co-operative principles is open and voluntary membership. While voluntary membership needs no further explanation, the meaning of the open door principle in co-operative SHOs is less obvious. **The door to SHOs is not open to everybody but only to persons belonging to the group on which the SHO is based.** Every SHO is free to determine the conditions for membership in its by-laws, provided that there is **no discrimination with regard to race, sex, ethnic origin, religious or political belief.** By laying down requirements for membership in the by-laws, only those persons will be eligible for membership, who can use the services of the SHO, who are able to participate actively in the joint endeavours and who are able to make contributions. Accordingly, the following conditions for membership have to be met by new applicants:

They must

- **share the common interests** of the membership group,
- **be of full age** and of mental health,
- **live in the area of operation** of the SHO,
- **have a source of income** that allows them to make the contributions prescribed under the by-laws of the SHO and
- **meet such other conditions as may be prescribed in the by-laws,** e.g. earn not more than the minimum wage, be married with children, do not already own a house or plot, be prepared to attend pre-membership educational courses.

Careful selection of the members of a self-help group is the best way to secure success. Therefore, instead of trying to recruit members in great numbers without asking questions, **measures must be taken to ensure that only such persons are admitted to membership who can be integrated into the group and who are willing and able to make contributions and to work actively towards the common objectives.** In addition to the objective criteria laid down in the by-laws, **personal qualities of candidates are of great importance** for the strength of the group. Such qualities like good character, readiness to work together with others for a common objective, group spirit and loyalty towards the joint organisation are difficult to assess by looking at an application

form. It is therefore wise to provide for a period of probationary membership as a candidate for six or twelve months before admitting an applicant to full membership.

8.2. Ways of acquiring membership

There are two ways to become a member of a co-operative SHO:

- As a founder-member and
- as an applicant for membership.

(a) Founder-members

Persons interested in forming a SHO who take action to establish such an organisation either by joining a formation committee or by attending a formation meeting, acquire membership as founder-members by voting in favour of establishing the organisation, signing the by-laws approved by the formation meeting and appearing on the list of members submitted to the registering authority together with the application for registration.

There is usually a minimum number of founder-members prescribed by the law under which the organisation intends to be registered, e.g. 10 in case of a society or co-operative society in most English-speaking countries. If conditions for membership are prescribed in the by-laws of the new society, all founder-members must meet these requirements. To avoid difficulties, it is advisable to have more than the prescribed minimum number of founder-members in case a member withdraws, proves not to be eligible or ceases to be available for other reasons.

(b) Admission to membership upon application

Once the organisation has been established and registered, new members can only be admitted upon application. To make sure that all required information is provided by the applicant, there should be an **application form** to be filled by the applicant. Such form is at the same time the basis for consideration by the management committee or board of directors and serves as evidence for the application. As suggested earlier, the by-laws of the organisation may stipulate that an applicant must attend pre-membership educational courses and/or must serve as a candidate for the period prescribed, before being admitted.

If an application is rejected by the committee of management or board of directors, the applicant has to be informed of this decision and of his/her **right to appeal to the general meeting** against the refusal of the committee or board.

The new member receives a copy of the by-laws and has to declare in writing that he/she has read the by-laws and accepts them as binding. As a result of admission to membership the new member must make such payments as are prescribed in the by-laws:

- Entrance or admission fee and
- the minimum number of shares or subscriptions.

Only if all these conditions are fulfilled the person becomes a member and can exercise his/her membership rights.

8.3. Rights and obligations of members of co-operative SHOs

Many people join co-operative SHOs or housing co-operatives with little knowledge about organised self-help and co-operation. They believe that by joining a SHO they can receive something for nothing. Often co-operative societies are set up in a hurry without taking time to inform the members of the rules governing co-operative work.

Organised self-help is **team work** and team work in terms of active personal participation in a joint endeavour can only succeed, if each member knows his/her rights and obligations. **According to co-operative principles all members have equal rights and obligations.**

(a) Members' rights

The rights of members of SHOs can be subdivided in rights of participating in the life of the organisation and rights to share in its achievements.

(i) Rights of participating in the life of the organisation

Every member has the right:

- **to attend general meetings and to vote** in such meetings and thereby **to participate in decision-making;**
- **to elect** members of the committee of management or board of directors or any other committee **and to be elected** to serve on the committee or board or other body;
- **to inform himself/herself on the activities of the organisation** by studying and deciding on the annual accounts, receiving annual reports of the committee or board and of the auditors, checking the minute book, by **requesting matters to be placed on the agenda** of the general meeting and by asking questions during and outside the general meeting and thereby **exercising control** over the organisation;

- **to call for a general meeting** to discuss any matters which he/she considers important for the well-being of the organisation, provided that such a proposal must be supported by a minimum number of members, e.g. 10 or more;
- **to propose the dismissal of committee or board members** for failure to manage the affairs of the organisation with the necessary prudence and diligence. for breach of trust or for acting contrary to the law or to the by-laws of the organisation;
- **to withdraw** from the organisation by giving notice as prescribed in the by-laws.

This list of membership rights shows the **problems which illiterate members of a co-operative society are facing when trying to exercise democratic control over their elected leaders.**

(ii) Rights to share the achievements of the organisation

Every member has the right

- **to use the facilities and services** offered by the organisation, e.g. to use serviced sites or common services provided by a housing co-operative ;
- **to receive dividend or interest** on his/her share contribution at the end of each financial year in which the organisation has realised a surplus for distribution among its members, provided that such dividend or surplus shall be allocated to the members' share account until the share contributions due are fully paid.

(b) Obligations of members of co-operative SHOs

Equal rights of members in the organisation on the one hand also mean equal obligations towards it on the other. Members of co-operative SHOs are obliged to:

- **to observe and comply with the by-laws** of the organisation, which is indispensable to maintain group discipline and to allow efficient group action, because to ignore or infringe the by-laws means to **weaken group discipline** and to **cause instability within the organisation**;
- **to attend all meetings** of the organisation and **to participate in other joint activities** of the organisation;
- **to attend training courses and other educational activities** of the organisation to enhance his/her knowledge and vocational qualification;

- **to be loyal towards the organisation**, which means to do whatever is possible to promote the well-being of the organisation and to refrain from acts damaging the reputation or assets of the organisation;
- **to meet all his/her financial obligations as stipulated in the by-laws**, such as for instance entry fees, share contributions, compulsory or voluntary savings and service charges;
- **to accept liability for the debts of the organisation** in case of its liquidation up to the amount prescribed in the by-laws.

All these rights and obligations of membership belong together and form a unity. **No one can claim any rights in a co-operative SHO unless he/she is also prepared to accept the obligations.** The right of democratic decision-making ensures that the members of co-operative SHOs themselves determine the nature and scope of these rights and obligations because they have the right to draft their own by-laws in which the rights and obligations of all members are detailed.

8.4. Termination of membership (withdrawal, transfer, expulsion)

According to the principle of open and voluntary membership, **every member is free to withdraw from a co-operative SHO** if he/she so wishes because of being dissatisfied with the services of the organisation, having lost interest in the organisation's work, changing needs, old age or any other reason.

The by-laws of the organisation provide for a period of notice and for other procedures to be followed. Otherwise, the right of a member to withdraw from membership cannot be restricted.

Upon withdrawal, the member may claim refund of his/her share contribution after such time and under such conditions as are prescribed in the by-laws.

Another way of terminating membership in-a co-operative SHO is to **transfer his/her shares to another person qualified for and admitted to membership.** In such case the transferee assumes the role of the original member, provided that the transfer is approved by the committee of management or board of directors of the organisation.

Finally, voluntary membership also implies that a group is free to decide with whom to co-operate. **Members who do not comply with the by-laws or wilfully obstructs the working of the group can be expelled.** The reason for expulsion are stated in the law and in the by-laws which

also regulate the procedures to be followed when expelling a member.

Three general rules regarding expulsion have to be respected:

- The member must be informed of the intention to be expelled and of the reasons for expulsion.
- The member must be given a chance to show cause why it should not be expelled.
- Where a member is expelled by decision of the committee of management or board of directors, an appeal must lie to the general meeting the decision of which shall be final.

9. By-laws

9.1. Definition

By-laws can be defined as a **set of rules governing the relations between an organisation and its individual members and determining the way in which the organisation works**. Every society, association or co-operative society is empowered under the law to make its own by-laws as long as they do **not contradict the provisions of the law**. To make by-laws is not just a formality prescribed by law. The by-laws are important because they **contain rules which all members must know and respect in order to make the joint activities succeed**.

9.2. How to make by-laws

By-laws of an organisation are drafted by its members. This means that the founder-members of a society, association or co-operative society must meet and decide on the by-laws of their organisation. In view of the fact that founder-members are usually lay-persons not conversant with questions of law, it will be difficult without expert assistance to draw up by-laws which are both suitable for the proper working of the organisation and in conformity with the law.

Such external assistance can be obtained in two ways:

- By **hiring a legal expert which may be difficult and expensive** or
- by using **model by-laws** which are provided by the registering authority, by national federations of housing co-operatives or by technical aid organisations. Such model by-laws **have to be adjusted to the specific requirements** of each individual organisation as will be discussed later.

By-laws of an organisation have to be adopted by the founder-members during the formation meeting. They are usually prepared by the formation committee and presented in draft form to the formation meeting, to be discussed section by section and approved by all founder-members. Those who do not agree to the proposed by-laws and refuse to sign them will not become founder-members of the new organisation.

Once the by-laws have been approved and registered, they are binding all present and future members of the organisation. The by-laws can, however; be **amended by members in general meeting**, provided that the intention to amend the by-laws is notified in the invitation to the

meeting and a substantial number (e.g. at least $\frac{3}{4}$ of the members present and voting at the meeting) agree. Amendments of by-laws are only binding all members, if they have been reported to the registering authority, vetted and registered in a public register.

9.3. Contents of by-laws

The by-laws must contain provisions with regard to every issue important for the activities the organisation intends to undertake and on everything, the members, the creditors and the public need to know about the organisation.

The following matters have to be covered:

- **Name of the organisation (firm name) and place where the office of the organisation can be found (registered office),**
- **the common goal for which the organisation was formed and the fields in which the organisation will work (objects),**
- **the geographical area within the boundaries of which the organisation shall operate (area of operation),**
- **conditions which a person will have to meet in order to be accepted as and to remain a member (conditions for membership),**
- **reasons for and ways in which a member can withdraw or be expelled (termination of membership),**
- **a list of all rights and obligations which every member accepts when applying for membership and signing the by-laws including the payments to be made to the organisation (rights and obligations of members),**
- **details about procedures of convening meetings, quorum and voting at meetings, decision-making and recording of decisions (decision-making),**
- **powers and liabilities of the committee of management or board of directors and of other committees and division of tasks among them (organisational structure),**
- **details about the financial resources of the organisation, i.e. the amount to be paid in terms of entry fee, if any, the value of a share, compulsory or voluntary savings, fines, the way in which reserves are formed and losses are covered (financial resources),**

- procedures which have to be respected when merging with another organisation, split up the organisation or affiliate to another organisation (**amalgamation, division and affiliation**).

9.4. Compliance with by-laws

By-laws are the rules according to which a group works together and its elected leaders carry on the business of the organisation. It is essential that every member knows these rules and adheres to them. To safeguard compliance with the by-laws, different **sanctions** can be applied: A warning by the elected leaders, a fine in accordance with the by-laws and as a means of last resort: expulsion from the organisation.

The by-laws have to be read (or otherwise explained) and understood together with the law under which the organisation has been established. Where questions arise or conflicts occur within the organisation for which the by-laws do not offer any answer, the solution to the problem may be found in the provisions of the law or by common sense.

10. General Meeting

10.1. Importance of general meeting

As already stated earlier, the general meeting is the **supreme authority** in every democratic organisation. The general meeting as a meeting to which all members are invited, has the final say in all important matters of the organisation. It is the **main decision-making body** of the organisation and has to follow strict procedures to arrive at valid and binding decisions.

Most of the membership rights (like the right to attend, to vote, to elect and be elected) can only be exercised in general meetings. Accordingly, only those members who know their rights and who understand the procedures can participate in the general meeting in a meaningful way.

The members in general meeting exercise control over their representatives whom they elect, who are accountable to them and whom they can dismiss.

10.2. Convening general meetings

In democratic organisations every member has to be given **the chance to attend general meetings**. This means that **every member has to be informed in time** of the date, place and agenda of the meeting in a way agreed upon among the members. Therefore, the procedures to be followed when convening a general meeting and other meetings have to be laid down in the by-laws.

A general meeting is usually convened by sending an invitation to each member or by making the invitation known to the members in any other agreed form (e.g. as an advertisement in a local newspaper, in form of a poster in front of the registered office of the organisation).

What is important is that **every member has the chance to attend the meeting**. The **decisions at the meeting** are taken by those members present and voting and **are binding all members**.

Mistakes in convening general meetings may have serious consequences: **A member who has not received a proper invitation may contest the validity of the whole general meeting and of every decision taken at such meeting.**

10.3. Conducting general meetings

To hold meetings in an orderly manner, it must be agreed who chairs the meeting, what are the rights and powers of the **chairperson**, what procedures have to be followed and how decisions are recorded. Some of these matters are laid down in the by-laws of the organisation, others in standing orders, i.e. rules for conducting meetings and for behaviour during meetings.

As a rule, the chairperson of the committee of management or board of directors chairs the general meetings and in his/her absence the vice-chairperson or should he/she be absent as well, any person elected for this purpose by the members in general meeting. The chairman appoints a secretary to **keep the minutes of the meeting** and other persons to count the votes cast.

Only such matters may be discussed and decided in general meetings that were placed on the agenda before the meeting.

The chairperson has the final say in all matters of procedure. He/she decides who has the right to speak and may withdraw this right, end the discussion and put a matter to vote.

10.4. Quorum and decision-making in general meetings

A general meeting is supposed to express the views of all members or at least of as many members as possible. It would be unrealistic to expect attendance of all members but participation of a substantial number of members is desirable. On the other hand, the general meeting as the main decision-making body must be able to take valid decisions, even if not all members attend. For instance, at the end of each financial year, the budget has to be agreed upon, leaders have to be elected, policies have to be adopted.

To safeguard both reasonable attendance at meetings and the ability to take valid decisions, the **rules of the quorum** have been introduced. **Only if a meeting has a quorum** (the minimum number of attending members as prescribed) **it is a properly constituted meeting at which legally valid and binding decisions can be taken.**

Where this issue is not already regulated by the law, each organisation can decide whether more emphasis shall be placed on attendance by a large number of members or on efficient decision-making even if only few active members attend the meeting.

- In the first case the quorum can be fixed in the by-laws for instance at 40 or one fourth of all registered members, whichever is the less („split quorum“) or at an absolute figure (e.g. 50).
- In the second case it can be stipulated that three or more members form a quorum.

If a large quorum is fixed and less members attend than required to form a quorum, the meeting must be adjourned and held e.g. within two weeks at the same time and place with the same agenda. At such second convocation, all members present, irrespective of their number, form a quorum, so that the work of the organisation can go on and the necessary decisions can be taken.

In democratic organisations, **each member has one vote and decisions are taken by a majority of members present an voting.** In cooperative SHOs emphasis is placed on personal co-operation and, accordingly, **voting by proxy (e.g. by a person authorised to represent an absent member and to vote on that member’s behalf) is either not allowed or strictly limited.** If voting by proxy is allowed a member duly authorised to this effect can only represent one or two members as prescribed by the law or in the by-laws.

At general meetings most decisions are taken by a **simple majority** (i.e. at least half) of all members present and voting. However, certain important decisions require a „qualified“ majority (i.e. two thirds or three fourths) of all members present and voting or even of all registered members as may be prescribed. **Qualified majorities are for instance needed for amendment of by-laws, amalgamation with other organisations or dissolution of the organisation.**

Decisions taken at a general meeting having a quorum are binding all members of the organisation, even those absent, abstaining or voting against the issue.

10.5. Powers of the general meeting

All decisions of long term importance for the organisation have to be taken at the general meeting. These include the following:

- Election and dismissal of office-bearers, i.e. persons elected to serve on the committee of management or board of directors or other committees.
- Demanding information from the office-bearers of the organisation on the conduct of the organisation’s business.

- Decision on the general policy to be followed by the organisation and its elected representatives.
- Amendment of by-laws.
- Decision on the accounts and proposals for the allocation of surplus, if any, or covering losses at the end of a financial year.
- Approval or rejection of the programme and proposed budget for the coming year.
- Decision on amalgamation, division or affiliation to other organisations.
- Decision on the dissolution of the organisation.

Most of members' rights can only be exercised in general meeting. Therefore, **members must be encouraged to attend meetings and to use their chance of active participation** by casting his/her vote and thereby deciding how the organisation will work in the future, rather than leaving others, a small number of active members, to decide on their behalf.

11. Committee of Management or Board of Directors

General meetings are only convened once or twice in every year. Between these events the day-to-day business of the organisation has to be conducted and the organisation has to be represented in dealings with third parties and with the authorities. For this purpose the **members elect persons from among themselves to act as their agents, trustees or representatives**. These persons are referred to as office-bearers because they are empowered to act on behalf of the members (as the principal) and are accountable to them.

It is essential for the success of every organisation to elect the right persons into office and to remove persons detrimental to the smooth running of the organisation from office.

The power of members to elect and dismiss the office-bearers of their organisation is an expression of the co-operative principle of democratic control.

11.1. Composition and term of office

The governing body of a co-operative SHO is composed of two or more persons elected by the members from among themselves (**self-administration**). Usually such members are elected to serve on the committee of management or board of directors who have a good social standing, who are known to be trustworthy and who have leadership qualities. Once elected, the committee or board members elect a chairperson, a vice-chairperson, a secretary and a treasurer among themselves.

The period (term) of office is usually three years with the possibility of re-election. Service on the committee or board is done in an **honorary capacity**, i.e. without remuneration except compensation of expenditure incurred in the exercise of their official functions.

Individual committee or board members or the whole committee or board may be removed from office by resolution of a general meeting in which case new office-bearers will be elected (democratic control).

Elected representatives of the members usually do not have the skills of professional managers. Where the services of a professional, full-time or part-time manager are required and the financial means of the co-operative SHO allow, such manager is employed by the committee or board and accountable to them.

11.2. Tasks, powers and responsibilities of committee or board members

The committee or board members of a co-operative SHO are entrusted by the members with the management of the organisation. They are empowered to represent the organisation and to sign legally binding contracts on behalf of the organisation.

They are accountable to the members for the result of their work.

In their actions and decisions the committee or board members have to respect the provisions of the law, of the by-laws and the general policies laid down by the members in general meeting.

They are responsible for

- matters of in-door-management of the organisation,
- keeping proper books and
- external contacts of the organisation with third parties and with the public authorities.

In the exercise of their powers and duties the committee or board members have to respect the law, the by-laws of the organisation and the decisions of the members in general meeting and to act with the diligence and prudence usually required in business. They are jointly and severally liable for every loss or damage caused by acts contrary to the law or the by-laws and by negligence.

11.3. Supervision, audit and control

In order to enable the members to supervise the activities of the committee of management or board of directors in an effective manner, the office-bearers have to submit **annual reports** to the members in general meeting and to answer questions.

At the end of each year the committee or board members have to stand a **vote of confidence** at the general meeting and have to be discharged from their responsibility during the period under review by the members.

In case of co-operative societies, member control of the performance of the office-bearers is supplemented by electing a **supervisory or audit committee** in charge of supervising the activities of the committee of management or board of directors during the periods between general meetings and to report to the members.

Where co-operative SHOs are engaged in economic activities with third parties, **external audit by professional auditors** may be prescribed by the law under which the organisation is registered (e.g. the Co-operative Societies Act).

11.4. Duties and responsibilities of employed managers

As a paid employee of the organisation, the manager is responsible for the day-to-day management of the organisation and has to execute the decisions of the committee of management or board of directors.

He/she has to be present at the office during office hours. He/she is in charge of dealing with members and customers and keeping the books and correspondence of the organisation in line with directives given to him/her by committee or board members.

The manager is the person with whom all members and third parties come into contact when dealing with the organisation. It is therefore essential to appoint a well qualified and motivated person to become manager and to pay a reasonable salary in order to receive good services from the manager.

The manager is accountable to the committee of management or board of directors and is liable for damage or loss caused by any act contrary to the law, the by-laws, directives from the committee or board and by negligence in performing his/her duties.

12. How to Measure the Success of a Co-operative SHO?

12.1. Assessment of economic results

Unlike in case of commercial firms, the success of a co-operative SHOs is not only measured by the economic results of the enterprise at the end of a financial period but also by the **degree in which the organisation has promoted the economic interests of its members.**

While in a commercial firm the profit made during the year is shown in the balance sheet, and expressed in the amount paid to share holders as dividend on their investment, member promotion is usually shown as a cost factor in the co-operative SHO's books.

12.2. Promotion in terms of savings or earnings

In co-operative organisations, member promotion can take different forms:

- **Reliable services at lower cost** and or **better quality** and conditions compared to those offered on the market,
- **access to credit** and supply channels which the individual member would otherwise not have,
- **protection against unfair competition** and arbitrary treatment by business partners or public authorities,
- access to information, education, training and experience.

Some of these advantages derived from membership can be measured in terms of **savings or earnings**, while others are of non-economic nature and have long term positive effects which are **difficult to measure** in concrete figures.

12.3. Member satisfaction

As has already been discussed earlier, in organisations based on voluntary membership, the motivation of becoming and remaining a member is of crucial importance. Accordingly, in co-operative SHOs the management has to achieve member satisfaction, i.e. **members have to feel promoted by their SHO**, they have to appreciate what is offered to them as a result of their joint efforts.

There are various ways to measure member satisfaction:

- the direct way is to **ask members to express their views**, which , however, they may for various reasons prefer not to do,
- member satisfaction with the services offered by their organisation is expressed by **the degree to which these services are in effect used**, or by the **volume of transactions done by the members** with competing organisations instead of their own SHO,
- also **increase or decrease in membership** can be taken as yardstick for measuring member satisfaction; if many new members join, membership must be attractive, if many members leave the organisation, they must be dissatisfied.

12.4. Promotion plan and promotion report

The best way to measure the success of a co-operative SHO is to **establish a promotion plan with active participation of the members** (e.g. in a **promotion committee**) which is elaborated in close collaboration with the committee or board members, presented to the members in general meeting, discussed, if necessary modified and approved. This will allow to measure the degree of achievement in the following general meeting, where the management will have to present a **promotion report** and inform the members on the efforts made and cost incurred to promote the members of the SHO in accordance with their own plan.

Africa: Site and Service projects



Core houses in site and service scheme near Dar es Salaam, Tanzania
(Photo: Münkner)



Self-construction on serviced sites in a housing co-operative near Dar es Salaam, Tanzania (Photo: Münkner)

Africa: Improved living conditions with self-produced materials



People in rural Malawi living in simple shelter made of clay and straw, with poor sanitary facilities (Photo: DESWOS)



Solid houses can be built with self-produced local building materials, improving living conditions considerably (Photo: DESWOS)

Part III Examples of regulations for self-help organisations and housing co-operatives of the urban poor

13. Example of an adjusted legal instrument to give squatters security of tenure and at the same time protect the rights to land of the City Council

Occupancy Licence

The Housing (Statutory and Improvement Areas) Act Part VIII, Zambia

Section 39 Occupancy Licence

- (1) **No person shall without a licence issued under this section and except in accordance with the conditions thereof, build, use, let, sell, create a lien or security or in any way deal with any dwelling or building erected on any piece or parcel of land.**
- (2) **The council may issue to any person a licence (hereinafter referred to as an occupancy licence) in respect of any piece or parcel of land in such form, subject to such conditions and on payment of such fee as may be prescribed.**

Provided that not more than one occupancy licence shall be issued to any one person.

- (3) **Subject to the provisions of this Act every occupancy licence shall be valid for a period of not more than thirty years.**
 - (4) **Every occupancy licence and any other document relating to any dealing with land shall be registered in such manner as may be described.**
 - (5) **The holder of an occupancy licence shall have such rights and obligations in respect to the piece or parcel of land to which the licence relates and in respect of any dwelling or other building erected thereon as may be prescribed.**
 - (6) **The council may, after giving not less than three months' notice in writing to the licensee, revoke an occupancy licence on any of the grounds following, that is to say:**
 - (a) **the licensee has committed a breach or failed to comply with any of the conditions of the licence; or**
 - (b) **the licensee has failed to pay the fee prescribed for the licence.**
- Any fee payable under this Part may be recovered as a civil debt.**

14. The Housing (Statutory and Improvement Areas) Act, Zambia

Fifth Schedule (Regulation 32), Summary

Terms of occupancy

Monthly fees to be paid:

- **charge for water** supplied to the Improvement Area,
- **charge for sewage services**, if any, supplied to the Improvement Area,
- **charge in lieu of rates** based on the value of the average or normal dwelling within the Improvement Area,
- **charge for a fair share of the cost of any services** provided especially for such Improvement Area.

No liability of the Council for any damage, loss or inconvenience cause to occupant or to persons or assets brought on the premises

The occupant covenants with the Council as follows:

- (a) to make **payments in accordance with the licence**
- (b) **to occupy the premises for himself** and his immediate family only
- (c) **not to use the premises for other purposes than permitted and not to change the buildings without previous building permit**
- (d) to exercise rights with as little damage as possible and to make compensation for any damage
- (e) to keep premises **clean and tidy** and in good state of repair
- (f) **not to sub-licence**, but person entitled to succeed the occupant shall be entitled to continue occupancy
- (g) to keep Council indemnified against all damage, loss or injury
- (h) to leave the site clean and tidy within three months from the termination of the licence.

This licence may be terminated by notice given by the Council:

- By the effluxion of time,
- **by failure to pay for three consecutive months**,
- by failure to remedy any breach of stipulations and conditions contained in the licence,
- on breach of stipulations and conditions contained in the licence which is in the opinion of the Council incapable of being remedied.

The licence shall confer no tenancy upon the occupant, and possession of the premises shall be retained by the Council subject however to the rights created by this licence.

The Council shall at any time have the right to enter upon the lands and to inspect the buildings upon such lands.

Any notice to be given to the Council under or pursuant to the licence shall be sufficiently given by mailing such notice postpaid to the Council. Any notice to be give to the occupant shall be sufficiently given by posting the same upon the dwelling on the licensed premises.

15. Model of By-laws for a Mutual Self-help Housing Group under the Societies Act of Kenya

(Source: Mutuku, Monica M.: Mutual self-help - House construction by allottees who have formed societies in the Dandora Project, Nairobi, Kenya, Case Study prepared for the Workshop on Integrated Co-operatives for Satisfying the Basic Need of Shelter in Slum and Squatter Areas, Marburg 1980).

By-laws for.....

1. The name of the society shall be.....
2. Objects
 - a.
 - b.
 - c.

3. Membership

- (a) Any allottee in Phase I of Dandora scheme over the age of eighteen years shall be eligible for membership of the society and shall, subject to the approval of the committee, become a member on payment of an entrance fee of ... KSh.
- (b) Every member shall pay a monthly subscription of KSh not later than the 15th day of each month.
- (c) Any member desiring to resign from a society shall submit his resignation to the secretary, which shall take effect from the date of receipt by the secretary of such notice, subject to the approval of the group and there being no financial loss to the group.
- (d) Any member may be expelled from membership if the committee so recommends and if a general meeting of the society shall resolve by a two-thirds majority of the members present and voting that such a member shall be expelled on the grounds that his conduct has adversely affected the reputation or dignity of the society, or that he has contravened any of the provisions of the constitution of the society. The committee shall have power to suspend a member from his membership until the next general meeting of the society following such suspension but notwithstanding such suspension a member whose expulsion is proposed shall have the right to address the general meeting at which his expulsion is to be considered.

- (f) Any person who resigns or is removed from membership shall not be entitled to a refund of his subscription or any part thereof or any moneys contributed by him at any time.
- (g) Any member who falls into arrears with his monthly subscription for more than two months shall automatically cease to be a member of the society and his name shall be struck off the register of members. The committee may, however, reinstate such member on payment of the total amount of subscription outstanding.

4. Office-bearers

- (a) The office bearers of the society shall be
 - (i) Chairperson
 - (ii) Vice-chairperson
 - (iii) Secretary
 - (iv) Treasurer

all of whom shall be members of the society and shall be elected at the annual general meeting to be held in each year (see also rule 6 (b) below).

- (b) All office bearers shall hold office from the date of election until the succeeding annual general meeting subject to the conditions in subparagraphs (c) and (d) of this rule but shall be eligible for re-election.
- (c) Any office-bearer who ceases to be a member of the society shall automatically cease to be an office-bearer thereof.
- (d) Office-bearers may be removed from office in the same way as is laid down for the expulsion of a member in rule 3 (d) and vacancies thus created shall be filled by persons elected at the general meeting resolving expulsion.

5. Duties of Office-Bearers

- (a) Chairperson

The chairperson shall, unless prevented by illness or other sufficient cause, preside over all meetings of the committee and, at all general meetings.

- (b) Vice-Chairperson

The Vice-Chairperson shall perform any duties of the Chairperson in his/her absence.

- (c) Secretary

The secretary shall deal with all the correspondence of the society under the general supervision of the Committee.

In cases of urgent matters where the committee cannot be consulted, he shall consult the Chairperson or if he/she is not available, the Vice-Chairperson. The decisions reached shall be subject to ratification or otherwise at the next committee meeting. He/she shall issue notices convening all meetings of the committee and all general meetings of the society and shall be responsible for keeping minutes of all such meetings and for the preservation of all records of proceedings of the society and of the committee.

(d) Treasurer

The Treasurer shall receive and shall also disburse, under the directions of the committee all moneys belonging to the society and shall issue receipts for all moneys received by him/her and preserve vouchers for all moneys paid to him/her. The treasurer is responsible to the committee and to the members that proper books of account of all moneys received and paid by the society are written up, preserved and available for inspection.

6. The Committee

- (a) The Committee shall consist of all the office bearers of the society andother members elected at the annual general meeting in each year: such committee members shall hold office until the following general meeting. The committee shall meet at such times and places as it shall resolve but shall meet not less than once in any three months.
- (b) Any casual vacancies for members of the committee caused by death or resignation shall be filled by the committee until the next annual general meeting of the society. Vacancies caused by members of the committee removed from office will be dealt with as shown in rule 4 (d).

7. Duties of the Committee

- (a) The Committee shall be responsible for the management of the society and for that purpose may give directions to the office bearers as to the manner in which within the law, they shall perform their duties. The committee shall have power to appoint such sub-committees as it may deem desirable to make reports to the committee upon which such action shall be taken as seems to the committee desirable.

- (b) All moneys disbursed on behalf of the society shall be authorised by the committee except as specified in rule 12 (d).
- (c) The quorum for meetings of the committee shall be not less than members.

8. General Meetings

- (a) There shall be two classes of general meetings - annual general meetings and special general meetings.
- (b) (i) The annual general meeting shall be held not later than.....in each year. Notice in writing of such annual general meeting, accompanied by the annual statement of account (see rule 11 (b) and the agenda for the meeting shall be sent to all members not less than 21 days before the date of the meeting and, where practicable, press advertisement not less than 14 days before the date of the meeting.
- (ii) The agenda for any annual general meeting shall consist of the following:
 - a. Confirmation of the minutes of the previous annual general meeting.
 - b. Consideration of the accounts.
 - c. Election of office bearers and the committee members.
 - d. Such other matter as the committee may decide or as to which notice shall have been given in writing by a member or members to the secretary at least four weeks before the date of the meeting.
 - e. Any other business with the approval of the Chairperson.
- (c) A special general meeting may be called for any specific purpose by the committee. Notice in writing of such meeting shall be sent to all members not less than 7 days before the date thereof and where practicable by Press advertisement not less than 7 days before the date of such meeting.
- (e) Quorum for general meetings shall be not less than.....of the registered members of the society.

9. Procedure At Meetings

- (a) At all such meetings of the society the Chairperson, or in his/her absence, the Vice-Chairperson, or in the absence of both these officers, a member selected by the meeting shall take the chair.
- (b) The Chairperson may at his/her discretion limit the number of persons permitted to speak in favour of and against any motion.

- (c) Resolutions shall be decided by simple voting by a show of hands. In the case of equality of vote, the Chairperson shall have a second or casting vote.

10. Auditor

CD staff responsible for the group will be inspecting the books at least once a month.

11. Funds

- (a) The funds of the society may only be used for the following purposes:-
 - (i)
 - (ii)
 - (iii)
 - (iv)
- (b) All moneys and funds shall be received by and paid to the Treasurer and shall be deposited by him in the name of the society in any bank or banks approved by the committee within 2 days.
- (c) No payments shall be made out of the bank account without a resolution of the committee authorising such payment and all cheques on such bank account shall be signed by the Treasurer or the Assistant Treasurer and two other office bearers of the society who shall be appointed by the committee.
- (d) A sum not exceeding KSh. 100 may be kept by the Treasurer for petty disbursements of which proper account shall be kept.
- (e) The committee shall have power to suspend any office bearer who it has reasonable cause to believe is not properly accounting for any of the funds or property of the society and shall have power to appoint another person in his place. Such suspension shall be reported to a general meeting to be convened on a date not later than two months from the date of such suspension and the general meeting shall have full power to decide what further action should be taken in the matter.

The financial year of the society shall be from.....

12. Amendment of by-laws

Amendments to the constitution of the society must be approved by at least a two-thirds majority of members at a general meeting of the

society. They cannot, however, be implemented without the prior consent in writing of the Registrar, obtained upon application to him made in writing and signed by three of the office bearers.

13. Dissolution

- (a) The society shall not be dissolved except by a resolution passed at a general meeting of members by a vote of two-thirds of the members present. The quorum at the meeting shall be as shown in rule 8 (e). If no quorum is obtained, the proposal to dissolve the society shall be submitted to a further general meeting which shall be held one month later. Notice of this meeting shall be given to all members of the society at least 14 days before the date of the meeting. The quorum for this second meeting shall be the number of members present.
- (b) Provided, however, that no dissolution shall be effected without prior permission in writing of the Registrar, obtained upon application to him made in writing and signed by three of the office-bearers.
- (c) When the dissolution of the society has been approved by the Registrar, no further action shall be taken by the committee or any office bearer of the society in connection with the aims of the society other than to get in and liquidate for cash all the assets of the society. Subject to the payment of all the debts of the society, the balance thereof shall be distributed in such other manner as may be resolved by the meeting at which the resolution for dissolution is passed.

14. Inspection of accounts and List of members

The books of account and all documents relating thereto and a list of members of the society shall be available for inspection at the registered office of the society by any officer or member of the society on giving not less than seven days notice in writing to the society. (This rule applies to registered societies only).

15. Members responsibility to his/her plot

- (a) It shall be the members responsibility to be paying the City Council all monetary charges until the society shall have finished two rooms (which include the kitchen) ready for renting in the month following after completion.
- (b) The society shall not undertake any development in a members plot who may be in any outstanding arrears, either to the City Council or to the society. In case this happens to any member, the society shall

have to develop the next member's plot in the list. If the member so affected however clears the arrears, the society shall start the development after finishing the plot currently under construction at the time of payment of the said arrears.

16. Surrendering of the plot to the society for renting

On the society's wish to start development of the rooms in a member's plot, the member shall be called upon to surrender his/her plot identity card to the society. The society shall hand over the card to the Community Development Officer in charge, who shall be the custodian of the card on behalf of the society. The card shall be kept in the Community Development Offices of the City Council's Housing Development Department. This process shall continue until all the members shall have benefited equally from the society. The rent collected from the plots shall be used in paying monthly charges for the plots and the balances shall be added to society's finance.

On doing this the member shall sign an agreement form to this effect in presence of at least 3 society officials and the CD officer in charge.

17. Loans entitlement and collection

Any materials loan entitled to every member's plot shall belong to the society. The society shall collect this money whenever it may wish, after reaching mature stages of construction which may warrant collection provided it shall be used only in developing members' plots.

18. Members availability

Any society's member shall be availing himself/herself to the society and to the Council, when required from time to time to sign:-

1. Application for a plan
2. Application for loan when needed by society plus
3. Any other duty the member would be required to do on behalf of the society in connection with the members' plots.

19. Plot development succeeding order

(a) Ballot position sequence to determine who would get a plot earlier than the other. The society shall follow the same procedure in determining the order of succession in developing the members' plots

or

(b) All the members shall be called upon to conduct a secret ballot method to determine the order of succession.

delete either (a) or (b) whichever is not applicable.

Acceptance of the Society's Constitution

I,.....ID/.....

Allottee of plot number type and member of (Society) do hereby agree and accept the terms and conditions laid down in my society's constitution for the effective running of the society's deliberations for the benefit of all the members. I further understand that, failure to follow the regulations, I shall be responsible of any action taken against me by the society according to the constitution.

Signature

or

Date.....

Thumb Print

Surrender of Plot Card

In pursuance of the society's constitution, regulation numbers 16 and 18

I,ID/..... allottee of plot number and member of (society) hereby surrender my plot identity card to the society and agree to avail myself any time I am required to undertake responsibility given to me either by the society or the officer in charge of the society for the purpose of developing the plot under my name and those other plots of the members of the same society. I further understand and agree that I will continue paying monthly charges for my plot to the Council until the society completes two rooms (which include the kitchen in case of plot type A) or one room (in case of plot type 'B') until the rooms are ready for renting.

I hereby sign this day of 19.... in the presence of:

Chairperson: Name Sign.....

Secretary: Name Sign

Treasurer: Name Sign.....

Officer: Name Sign

Part IV Co-operation among co-operatives

16. Solidarity between housing co-operatives

by Rolf Trodin (Based on an ICA Housing-paper from 1988, updated 1998, president ICA Housing.)

Housing Co-operatives supply adequate and affordable housing to a large number of people in many parts of the world. Their nature and work fosters democratic behaviour and development. Housing is such an important part of every day life that it is often the key to overall economic and social development.

Some housing co-operatives have developed a keen sense of the principle of co-operation. However, many mirror the rest of society by developing a fierce sense of independence. Once the basic needs of housing have been met, many co-operatives forget their origins. Although they may respect most of the principles of co-operation, they do not pay enough attention to the principle: *Co-operation amongst co-operatives*.

In most countries, the individual housing co-operative is too local, too small, too jealous of its independence and too inclined towards isolation. Its outlook is often limited and its management efficiency does not equal contemporary requirements.

Co-operation must not stop at one housing co-operative. It must be widened into regional and/or nation-wide co-operative organisations. If co-ops do not belong to parent and/or umbrella organisations, they cannot use their size and numbers to the fullest advantage, nor can they compete effectively with the private sector and government. A major obstacle to the growth of strong umbrella organisations is the unwillingness of individual housing co-operative members to transfer some responsibilities to higher level organisations. This is often seen as a loss of control over the co-operative's direction. Co-operators must understand that a strong organisation is based on the contribution and the needs of all co-operatives. The right to the use of an organisations' services is balanced by the responsibility to contribute to the building of the unity among the co-operatives themselves.

We must not forget another important role of co-operatives: the members' responsibility for the expansion and development of more co-operatives, either with or without political support. Building housing co-operatives requires large sums of capital. Only solidarity between housing co-operatives can build a movement big enough to acquire

sufficient financial resources for the development of new housing co-operatives.

The majority of housing co-operators do not make an ideological choice to live in a housing co-operative; therefore, their sense of co-operation is not automatic or natural. Co-operation for most of us has to be learned and its results experienced before the power of solidarity is fully appreciated. Pioneer co-operators took for granted the need for solidarity because it was the very basis of their strength. Nevertheless, new co-operative members usually have no sense of the history or early struggles of their organisations. Leaders in co-operatives must develop and promote this sense of solidarity by providing the system, the opportunity and the soil for the seed of co-operation to grow.

Contrary to government activity and the usual competition which exists between individuals and private enterprises, co-operatives are based on equal service to members. The members must decide on the organisational structure and managerial practices. To have any influence in the long term, members must also recognise the need for organisation and the importance of their commitment and loyalty to the organisation and its accomplishments.

The following series of examples, taken from several countries, illustrate some of the advantages of solidarity between housing co-operatives. These examples are divided into the major activities of housing co-operative organisations: development, property and financial management, political and external relations, information, education and training, pooled services and bulk purchasing.

16.1. The Development Process

Solidarity between housing co-operatives creates financial stability and ensures that the basic conditions exist for their continued development.

In countries where housing co-operatives are most developed, they form part of regional associations which in turn form nation-wide co-operative housing associations. The larger organisations are held together through by-laws and roles of responsibilities at each level..

Land Acquisition

Land acquisition is one of the first and greatest problems facing housing co-operatives. The greater financial independence an organisation has, the better their position is when it is dealing with government authorities and financial institutions. A strong united membership base in some countries means that housing co-operatives have the same respect as

government and privately-owned organisations in housing production and management.

In countries where the land is given by the state to co-operatives at no charge, co-op solidarity has played an essential role in building the necessary credibility and trust. Within a united sector, land banking is also possible. The land belongs to all of the co-ops together, thereby guaranteeing that it will remain available to co-operatives in future generations.

Dealing with Consultants

Years of experience show that individual housing co-operatives find it very difficult to handle all phases of contract negotiations and contact with private technical consultants, urban planners and municipal bureaucrats during project development. Solidarity between housing co-operatives has proven essential in enabling housing co-operatives to hire their own technical advisors to protect their interest. When enough co-operatives are united, they can afford both technical planning experts and the purchase of modern computer equipment. Also, model home and apartment designs which can be used by more than one housing co-operative can help keep planning and marketing costs down and contribute to quality standards for co-operatives, even in very competitive housing markets.

Quality Control Research

Houses in a co-operative are usually built to last for a long period, therefore quality is of special interest. Research in house and building construction techniques by private enterprise is mostly geared to achieving the highest possible economic gain. It does not necessarily serve the long term interests of consumers. Solidarity allows co-operatives to undertake their own research in areas such as materials, design, energy efficiency and construction technology. Such research can only be effective if it is done over long periods of time and financed through joint efforts of many.

The opportunity for direct feed back and exchange of experience between all levels definitely improves production and raises the standards for co-operatives' buildings. The closer the ties between the levels of an organisation, the more widespread the collective responsibility for the quality of a project. The more united and the larger the organisation, the more research can be done to improve the situation for individual co-operatives.

Financing

In almost all countries, state support for the financing of housing co-operatives is a key factor in their development. Housing co-operators everywhere are preoccupied by the large outlay of capital required to finance the construction or purchase of their homes. Demands for member involvement in the financing of their homes exist even in countries where the state heavily subsidises development and construction costs. Solidarity between individual members also provides for an opportunity to develop equity by participating directly in the manual work of construction.

Where larger amounts of equity are required by co-operative housing members, solidarity between housing co-operatives allows for the organisation of savings schemes. In some cases equity is compulsory to obtain a co-operative home. Large numbers of members from waiting lists contributing small amounts of money to one co-operative organisation help produce large pools of money. Pooling these funds is often the only way enough money can be acquired in a short time to finance construction and guaranty some continuity in production.

Once waiting list members have been allotted a home, ways have been designed to continue to build funds for future development. In some cases this takes the form of a contribution added to the initial cost of a project and is contributed to the movement over the length of the term of the building loan. Unity between members who have a home and those who are still waiting can create substantial financial resources, which in time can accelerate the production of new co-operative homes.

16.2. Financial and Property Management

Solidarity between housing co-operatives allows for development of the necessary expertise to maintain healthy buildings and finances. Members are allowed more time to concentrate on improving their quality of life rather than on technical details of operation.

Routine administrative work including rent collection, loan repayments and member services can be a heavy burden for the boards of directors of housing co-operatives. Contacts with authorities and financing institutions are frequent and complicated. A unified approach to property and financial management of a housing co-operative ensures the physical long term well being of the projects and assures that they function without interruptions due to shortcomings in one generation of board members. A unified approach makes it easier to train new employees and develop experts in various fields.

Joint efforts have been used in different ways to resolve some of the problems of management. One such way has been to increase the size of the housing co-operative by adding new homes so that a rational economic base exists for hiring the necessary administrators. In other cases, individual co-operatives have joined forces to accomplish the same goals. However, the larger the co-operative, the more difficult it is to keep up member participation and a feeling of member responsibility.

In larger organisations, all member co-operatives can join forces and delegate to their regional associations the responsibility for providing expert financial and property management services. This kind of solidarity creates the economic stability required by the movement. It allows co-operatives to meet and join in bulk purchasing schemes and other ventures. It also allows for pooling of funds at the national level to pay for specialised technical, administrative, legal or other services which otherwise would not be available to individual housing co-operatives.

16.3. Pooled Services and Bulk Purchasing

Solidarity between co-operatives strengthens the economic capacity of housing co-operatives in their work with consultants, contractors, suppliers and manufacturers.

Under all economic systems, the collective power of housing co-operatives carries weight in negotiations with consultants, building contractors and suppliers. In many countries where competition is part of the economy, it has proved to be of crucial importance. It provides housing co-operatives with greater economic strength, and with the freedom to choose their suppliers.

Building Materials

A number of major items such as water heaters, refrigerators, cooking stoves, automatic washers and dryers and bathtubs can be purchased at considerable savings by working through a centralised agency. Savings can also be achieved in the bulk purchase of construction materials. Part of those savings can be used to finance the activities of the movement, thereby contributing to its further growth.

Such a united effort can also make it possible to negotiate improvements in the standards of products used by co-operatives. This helps raise standards for the entire industry

Energy

In some countries, favourable agreements have been made with oil companies and other big energy distributors through the united purchasing power of housing co-operatives. This requires total unity and co-operatives must refrain from using temporally low prices on local markets to achieve savings in the long term. In some instances housing co-ops have their own fuel distribution systems and realise greater savings, while providing work for a few of their members.

Insurance

Some housing co-op organisations have realised substantial savings in insurance costs through packages with insurers, because the risk of underwriting housing co-operatives is generally recognised as lower than for other housing forms. Co-operatives united under a central organisation administer the insurance programs, thereby acquiring an additional source of funding for other activities. Close collaboration with insurers may also result in access to another source of financing at preferred rates.

Pooling Funds

In some organisations savings schemes have been organised for individuals to build their contributions to the financing of their co-operative home. In this way, individuals become members of the movement prior to moving into co-operative homes. These savings schemes have created substantial funds that benefit members all over the country when used to purchase land or provide construction loans. Some housing co-operatives have emergency fund schemes to which all co-operatives contribute a small amount. These act as insurance against unforeseen emergencies relating to building maintenance. The fees for such emergency funds can be pooled with reserves for long term maintenance projects and short term repairs. As one fund, this money can attract substantially higher interest rates while taking advantage of the lower administrative costs for handling large amounts. Part of these large funds is available for emergencies and/or replacements and repairs while part is reinvested in further development of housing co-operatives.

In all cases this provides considerably better returns for individual co-operatives. By retaining part of the interest earned, the national organisation can develop new services. In auditing services as well, co-ops have set-up their own services. As a result, they have saved large amounts of money and been provided with more comprehensive services suited specifically to their needs.

16.4. Political and External Relations

Solidarity between co-operatives will help increase the favour of the public and government authorities by publicising successful examples of housing co-operative activity. This will maintain an appropriate climate for further development.

As socio-economic enterprises, co-operatives are not well understood by the public or by governments throughout all parts of the world. In some countries they receive a great amount of political support while in others support is almost non-existent. It must be stressed that state support is of great importance to successful co-operative endeavours in the housing sector. It is the member's responsibility to see to the expansion of political support for the co-operative movement.

In some countries, representatives from co-operative housing organisations influence government policy making through direct representation in government bodies. In others, housing co-operatives must engage in public relations and lobby activities at various levels to influence government authorities. In all cases it is important to develop the identity of our co-operative organisations. To that effect a number of national co-operative housing associations have specific media and public information programs as well as on-going political affairs programs. In all cases the power of numbers speaks very loudly and the solidarity of housing co-operatives is essential to reinforce the aims promoted by the leaders.

16.5. Information

Solidarity between housing co-operatives facilitates the acquisition and dissemination of information.

Only a centralised body can obtain complete and accurate information on government programs covering the range of activities applicable to housing co-operatives, such as employment programs, housing subsidies, consumer protection laws and education facilitation programs.

As well, solidarity allows for development of international awareness, and participation by national housing co-operative associations in international programs. The exchange of information and the help individual co-ops may obtain by meeting with other organisations cannot be underestimated. The information required to develop awareness regarding the problems of developing countries is best co-ordinated and disseminated through a national organisation to reach the largest possible number of housing co-operative members. It is also an

excellent way to find volunteers, provide financial resources and special sponsorship for projects in the third world. In some countries, initiatives have been undertaken to establish a third world development education program as part of the housing co-operative movement.

16.6. Education and Training

Solidarity between housing co-operatives allows the development of top quality volunteer and employee development & training programs.

To ensure the healthy operation of a housing co-operative it is essential that members of the board of directors and various committees know thoroughly the operations of their co-operative. By uniting and pooling their resources, co-operatives have developed central training programs to ensure that trainers are able to provide volunteers and staff with good adult education. In some countries, training programs cover every aspect of running a housing co-operative, from maintenance, energy conservation, membership selection, group dynamics, financial planning, budgeting and hands-on maintenance to leadership skills.

The development and design of these materials requires a lot of research in adult education techniques and a lot of time and energy to meet the very specific needs of adult learners training as housing co-operators. Considerable savings can also be realised by producing and distributing materials centrally. It goes without saying that control of a higher standard of quality is also possible.

In some countries a lot of attention is paid to culture and community building. Specific training is required for facilitators who are building communities and raising the awareness of people through social activities such as theatre, the arts and co-operative games for children. Any effort to involve people in the community is sustained by well trained individuals who understand that the friendly associations built among co-op housing members will benefit the co-operative and its members by promoting a higher quality of life and a higher commitment to solidarity.

Without a strong commitment to education, co-operatives should not expect their members to be committed to solidarity. Members of co-operatives must be familiar with the principles of co-operation in order to understand their benefits.

16.7. Conclusion

The future of co-operation in general, and co-operative housing in particular, hinges on solidarity. It depends on the movement's ability to develop, to manage itself efficiently, to exert political and public influence, to train its volunteers and staff well, and to use its numbers to best advantage. While many housing co-operatives have successfully met the immediate needs of their members for shelter, they must now broaden their commitment to helping themselves and others through co-operation.

The success and growth of the co-operative housing movement is linked to the ability to co-operate and unite at all possible levels. Success and growth depends on ability to share and gain from each other's experiences. Beyond the interests of individuals and co-operatives, expansion of the movement should be of major objective. The challenge is to research, examine, apply and build on every possible opportunity to go forward and meet the broader aims of co-operation.

Annexes:**1. Pros and cons of the different legal patterns for SHOs in Slum and Squatter Areas****Informal Group****Advantages:**

- Immediate adjustment to the aims and needs of the target group
- Low entry barriers
- Usually small number of members

Problems:

- Lack of official recognition and doubtful legality
- unlimited liability
- no access to external resources, aid, assistance
- instability, no secured permanent existence (no perpetual succession)
- smallness of group which means weakness in terms of economic and other potential

Society**Advantages:**

- Simple formation procedures
- durable structure due to by-laws, registration, incorporation as a body corporate
- official recognition
- more easy access to resources

Problem:

- not allowed to carry on economic activities for gain

Pre-co-operative Society**Advantages:**

- Simplified formation procedures (as compared to co-operative society)
- learner phase for a limited period of time
- durable structure due to by-laws, registration, incorporation as a body corporate

Problems:

- Temporary permission to operate
- need to mention pre-co-operative status in the firm name
- (in some countries) unlimited liability

Co-operative Society

Advantages:

- Formalised formation procedures (economic survey, trial balance etc.)
- durable structure due to by-laws, registration, incorporation as a body corporate for long term operation
- carrying on business with third parties
- limited liability

Problems:

- Higher access barriers,
- relatively high formation and organisation cost
- officialisation, i.e. strong influence of public authorities on the society

Building Society

Problems:

- High formation cost
- only for members with substantial and permanent income

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3. List of Abbreviations

CD	Community Development
CDG	Carl Duisberg Gesellschaft
DESWOS	Deutsche Entwicklungshilfe für soziales Wohnungs- und Siedlungswesen
FAO	Food and Agriculture Organisation of the United Nations
HABITAT	United Nations Center for Human Settlements
ICA	International Co-operative Alliance
ILO	International Labour Organisation, Office
KSh	Kenya Shilling
NGO	Non-governmental Organisation
ROSCA	Rotating Savings and Credit Association
SHO	Self-help Organisation

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