

## Housing Co-operatives in Egypt

### History

The co-operative movement in Egypt celebrated its 100th anniversary in 2008. Co-operatives were established as part of the “anti-colonial struggle”<sup>1</sup>. The emerging co-operatives were decentralised and self-managed structures based on the Raiffeisen and the British industrial and provident society legal framework. The creation of a Registry of co-operatives able to intervene, and secondary and apex organisations were also features of the emerging movement. The co-operative movement today consists of five sectors: consumer, agriculture, fishery, housing and production and 18 thousand democratic co-operative organisations. It provides services to 25 million citizens.

The concept of housing co-operatives first appeared in the 1930s with the aim of providing individuals with appropriate dwellings. These initiatives were based on individual initiatives with some State’s support.

Until the 1950s, at which time rent control laws were implemented, housing was supplied by private developers. The post revolutionary government (after 1952) was quite active in housing dealing with dramatic housing conditions. The public sector and semi-public agencies which included housing co-operatives played a major role in housing development from this point on. The financing of these developments came from personal and family savings, the General Building and Housing Co-operative Authority (GAHBC), and low-interest loans from the governorates. GAHBC was created in 1954 to assist co-operatives in providing housing to their members.

Housing co-operatives development started in Cairo with the first housing co-operative called Al Shamshargy – the Cooperative Association for Housing - established in 1952 in Maadi. Such development expanded to other cities and governorates and by 1953 21 housing co-operatives had been developed (13 in Cairo, 4 in Giza, and others in Sharqyam Daqahlya, Port Said and Assuit).

In Egypt each co-operative sector has its respective law. Before the adoption of a specific housing co-operative law in 1981, housing co-operatives were ruled by the Consumptive Cooperative Law no.109/1975 and were under the supervision of the Central Consumptive Cooperative Association. It was with the adoption of the specific law for housing co-operatives that the housing co-operative sector became independent. Then, internal systems for the primary, joint and united associations as well as the internal system for the Central Union were developed in addition to the implementation of regulations for the sector.

A stronger economy in the second half of the 1970s changed the housing situation. For the two next decades, private developers made important investments. The role of the public sector decreased and became limited to the building of low- and medium-cost units. However, the State assisted greatly the co-operative housing movement though loans dedicated to the co-operative associations (for example in 1991-1992 – 1.2 billion Egyptian pounds) as a result of an increase

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<sup>1</sup> The international co-operative movement, Johnston Birchall, 1997, page 133

of co-operatives and membership from 1,660 to almost 2,000 housing co-operatives during the period of 1995-2006.

In 1995-1996 economic reform was implemented to lower the national public budget and reduce the national deficit. This reform reduced drastically the state loans – by 500 million Egyptian pounds in 1995-96. The interest rate for subsidized loans increased from 4% to 6%. Those new measures brought a change in the membership of the housing co-operatives.

### Context

Egypt is one of the most urbanized countries in the world with significant population growth in Cairo and Alexandria. The country's population grows by 1,300,000 annually. This urbanisation brings a lot of informal housing, squatting, and slums. At the beginning of 2000, 400 slums/squatter settlements provided housing to 7 million people. According to Professor Hishma Aref, "50% to 75% of building activity in Cairo takes place through the informal sector". This means that housing is built without proper land titles and financed through the non-official banking system; informal savings co-operatives being one such method. However, it is important to note that progress has been made with the concerted effort of the government, the private and the co-operative sector.

But the housing situation in Egypt is something of a contradiction, as there are two million vacant units. With 40% of the population living under the poverty line, the majority of people are unable to obtain and repay a loan. Egypt is facing a serious shortage of affordable housing. A more educated population is also demanding better housing conditions, resulting in higher costs and higher rents. The Egyptian housing co-operative leaders have identified three main obstacles in the development of housing co-operatives: very expensive land, high prices of building materials and limited subsidized loans based on eligible but unrealistic square footage.

In the last decades, the whole co-operative movement experienced a painful shift, from being fully supported and promoted by the State to a free market economy. Moreover, the relationship between the co-operative movement and the administrative governmental agencies is difficult. Even though the agencies do not intervene directly in the development of co-operatives as they did in the past, they still maintain strict control over the co-operatives. Co-operative development can be blocked; co-operatives can be dissolved and their activities can be arbitrarily obstructed affecting their growth and capacity to adapt to the new economy. It is particularly difficult for the agriculture sector but all sectors suffer from this problem.

Co-operative leaders are calling for a complete change for the co-operative movement – a new legislation as well as an overall appreciation of what co-operatives are and could do. The General Co-operative Union of Egypt (GCU), the apex organization for co-operatives, has drafted and submitted to the Egyptian Parliament a new unified law for all co-operatives whatever their field. At this time, co-operatives are incorporated under different laws according to their sector of activities. The co-operative leaders have indicated that "the current co-operative laws are not compatible with the current socio-economic and political challenges"<sup>2</sup>. The proposed law "aims at achieving legislation that secures: the autonomy of the co-operative

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<sup>2</sup> The Egyptian Cooperative Movement : Between State and Market, Cooperating out of Poverty, 2008, page 249

movement, a coherent structure that emphasizes the economic identity of cooperatives as non-governmental organizations, and the role of the international principles of co-operation”<sup>3</sup>

GCU has also published its strategy for assisting in the modernisation of Egypt in the document *The Strategy of Co-operation in Egypt until 2020, and the role for the movement in modernizing Egypt*. The Egyptian co-operative movement has great expansion ambitions in term of employment until 2020 and the co-operative housing sector has set a target to grow by 15,000 employees.

The co-operative movement has hopes after hearing the speech of President Mubarak at the centennial celebration of the co-operative movement in 2008. President Mubarak reaffirmed the state’s conviction that co-operatives are necessary and part of modernising Egypt. He recognised that co-operatives are one of the 3 pillars – public, co-operative, and private – of Egypt’s economic system. In his electoral program in 2005, President Mubarak set the goal to build half million units between 2005- 20011 for his government in collaboration with the co-operative and the private sectors. The co-operative housing movement has made the commitment to build fifty thousand units.

#### The Co-operative Housing Movement in Egypt

The co-operative housing movement in Egypt is a tiered system comprising four levels. It consists of 2,320 primary housing co-operatives, 4 Joint Associations for Building and Housing, 13 Federal Associations for Building and Housing and the Federation of Co-operative Housing (FCH) previously called Central Housing Co-operative Union.

The 4 Joint Associations for Building and Housing are responsible for carrying out the development of joint projects involving several housing co-operatives. They manage the development of the projects and get the necessary financing on behalf of the co-operatives.

The 13 Federal Associations for Building and Housing provide development services to the housing co-operatives in their respective governorates. The services include:

- carrying out studies and maintain statistics regarding the housing co-operative needs for lands and building materials;
- providing the housing co-operatives with lands (state-owned or private) at the lowest cost possible;
- buying on behalf of the housing co-operatives the building materials at wholesale prices;
- set up factories for manufacturing and producing the building materials at the lowest prices possible;
- providing the transportation means to carry the building materials on sites;
- providing required design and execution expertise as well as building offices;
- implementing joint projects;
- getting loans to execute the projects.

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<sup>3</sup> The Egyptian Cooperative Movement : Between State and Market, Cooperating out of Poverty, 2008, page 249

The Federation of Co-operative Housing (FCH) is the Egyptian apex organization for housing co-operatives. It is managed by a 19-member board of directors elected for five years. FCH supervises the activities of the primary housing co-operatives and the Joint and Federal Associations. FCH ensures that the activities are carried out in accordance with the co-operative principles. Specifically, FCH's responsibilities include the following:

- making suggestions for the general policy for co-operative housing;
- promoting the co-operative ideology;
- delivering training and education through its cooperative training center;
- exchange and liaison with the international co-operative movement;
- conducting researches and studies; collecting information, statistics and data; publishing newspapers and periodicals;
- protecting the interest of its members by preparing the organizational, administrative and financial co-operative housing regulations for the minister's approval;
- guiding the co-operatives with appropriate administrative, financial and accounting systems;
- providing technical and legal advice and arbitration;
- monitoring the operations of the co-operatives including annual budget audits;
- liquidating outdated units;
- investing money jointly with the housing co-operatives for the development of projects.

### Statistics

In over 60 years 2,320 housing co-operative societies have been established for half million dwelling units. Almost one third of the Egyptian population are members of housing co-operatives. One of the largest co-operative housing schemes in Egypt was implemented in 1978 with the upgrading of a 100,000-member slum financed through the US Housing Foundation.

Surveys on the national socio-economic development plans concluded that housing co-operatives made up 43% of the housing plan.

The turnover of the co-operative housing sector in 2008 was EGP 1,074,800,000. The member investment totals EGP 17,277,300,000. The housing co-operative societies employ 300 employees of which 65 are women.

The housing co-operative movement has established and manages 129 co-operative tourist resorts on the Mediterranean Sea Coast.

### Description

Key characteristics of the Egyptian housing co-operatives are:

- mostly urban;
- owner-occupied: Members buy shares to get the right to occupy a unit. Members wishing to leave its unit during the first 10 years of occupation must reimburse 20% of the unit's market value to the Co-operative. After the 10 years period, members have full rights on their units;

- mainly targeted at people with moderate incomes. Members of housing co-operatives from poorer social groups do not exceed 25 %;
- constituted with people having a common reason to join – such as working in the same field (teachers, engineers, etc.) with the aim of providing them with housing;
- built according to the authorized engineering standards at lower prices than other sectors (according to surveys on national socio-economic development plans);
- under the supervision of the Ministry of Housing who is responsible to enforce the Co-operative Housing Law.

The housing co-operatives are responsible for:

- maintaining the buildings and properties;
- collecting the members' savings and invest it in the housing projects;
- providing lands in accordance to the authority given to them by the state through the co-operative housing law;
- developing the housing projects (acquiring building materials, participate in designs, engineering and real estate studies);
- securing long-term loans.

### Financing

The Law on Housing Co-operatives no.14/1981 specifies that housing co-operatives are exempted from numerous taxes and fees such as:

- taxes on industry and trade profits, and on the interest of deposits in banks and saving funds;
- taxes and fees levied by municipalities;
- custom taxes, statistical fees, importing fees and extra fees on imported tools, machines, primary building materials, and means of transportation;
- stamp taxes paid on contracts;
- several kind of fees on contracts and mortgages;
- fees for building licences and land allocation;
- legal and publishing fees.

Housing co-operatives receive a 25% discount on all State-owned land which could go up to 50% with the Minister of Finance's approval.

### Legal Framework

The Egyptian Constitution requires the State to take care of the co-operative associations. Accordingly the Housing Co-operatives Law no 14, 1981 stipulates that State will offer support, protection, exemptions and privileges as described below:

- Support: the law stipulates that a presidential resolution can transfer public money to cooperative housing projects without returns;
- Protection: the law stipulates that co-operative housing projects, as public funds, should get all kinds of civil and criminal protection.

- Exemption: the law grant full tax exemptions to the housing co-operatives in addition to exemptions from custom fees imposed on imported goods.
- Privileges: the law requires the State to facilitate loans and the acquisition of lands to the housing co-operative association by applying discounts.

The Housing Co-operatives Law no.14, 1981 defines housing co-operatives as “democratic, popular organizations which aim at providing housing for their members, and the required services needed for integrating the housing environment, in addition to providing the property with maintenance and care”.

The Federation of Co-operative Housing is under the supervision of the Ministry of Housing. Each ministry is in charge of enforcing their respective law and has the authority to inspect the administrative and financial administration, and monitor the boards of directors, the managers and the employees of housing co-operatives.