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HOUSING FUND: Saving Plan or Additional Tax?

The Government of Kenya has positioned the proposed Housing Fund as a saving plan designed to help citizens access affordable housing, but it has raised concerns and controversy due to lack of clarity on its implementation and potential impact on employee salaries. Stakeholders should carefully consider the benefits and drawbacks of the scheme before making implementation decisions.

Introduction

The proposed Housing Fund in Kenya has generated a lot of debate among employers and employees alike, with many questioning whether it is a savings plan or just another form of tax. According to the Finance Bill 2023, employed persons are expected to contribute 6% of their pay towards the Housing Fund, with employees contributing 3% and employers 3%.

While the government has maintained that the Housing Fund is a saving plan, many people view it as an additional tax. Companies, on the other hand, may see it as an additional payroll cost since they are expected to match their employees' contributions. As a result, there is a lot of confusion surrounding the scheme, with many people wondering how it will work.

Some of the key questions that need to be addressed include how one can acquire a house, what happens if the location of available houses is not suitable, and what happens if one already owns a house.

While the current government has not provided policy guidance, this commentary examines the concept as it had been thought through by previous administrations.

Kenya Vision 2030

The "Reforms in the Housing Sector" as per Kenya Vision 2030 provide a framework for fast-tracking the implementation of policy and legislative reforms aimed at facilitating the production of 200,000 housing units annually through various initiatives. These initiatives include the development of affordable, quality housing for lower-income Kenyans, the development of appropriate building materials and technologies, and the installation of physical and social infrastructure in slums and informal settlements in selected urban areas.

As a result, the NARC government initiated the Kenya Slum Upgrading Programme (KENSUP) in collaboration with UN-HABITAT and other stakeholders in 2004. KENSUP achieved several milestones, including the construction of housing units, market stalls, social halls, dispensaries, and classrooms in different parts of the country.

Housing Fund Regulations, 2018

Social housing for persons earning between KES 0 to 14,999

Low-cost housing for persons earning between KES 15,000 to 49,999

Mortgage gap housing for persons earning between KES 50,000 to 100,000

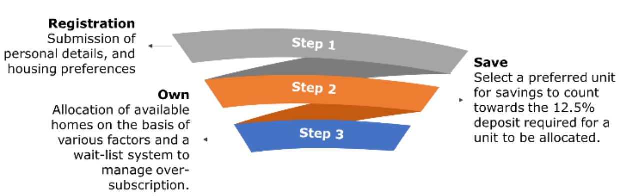
The Jubilee administration published the Housing Fund Regulations (2018), which was successfully challenged in court in 2020 by various labour organizations including the Central Organisation of Trade Union (COTU), the Trade Union Congress of Kenya, the Consumers Federation of Kenya and the Federation of Kenyan Employers. It is noteworthy that COTU has since become an ardent supporter of the Housing Fund.

The Housing Fund Regulations (2018) gives the first glimpse into how the government intends to provide affordable housing to low-income earners. Key regulations include:

- → Different schemes based on income levels
- → To draw benefits from the Housing Fund, individuals must contribute for five years uninterrupted.
- → Fund members can access contributions to offset housing loans, security for mortgages, or housing development.
- → Loans attract an interest rate of up to 7% per annum on a reducing balance basis.
- → In the event of a member's death, a survivor's benefit is paid to dependants.

Boma Yangu

With the Housing Fund Regulations (2018) in jeopardy, the Jubilee administration set up "Boma Yangu" for voluntary savings towards the acquisition of low-cost houses. The allocation process for available homes is done based on several factors, such as when one was registered on the platform, family status, and demand across the housing categories.



A Case for a Housing Fund

- A housing fund scheme can be leveraged to provide affordable and quality housing to low and middle-income earners, which is a major challenge in Kenya's urban areas.
- Contributions to a housing fund can act as a form of savings towards homeownership, and citizens can benefit from low-interest loans to purchase or develop homes.
- Having clear regulations can provide for a transparent and fair allocation process for available homes, which could potentially reduce cases of corruption and favouritism. Additionally, regulations can ensure that those in dire need get social housing assistance.

The Pitfalls of a Housing Fund Scheme

- The mandatory contribution to a housing fund is bound to be viewed as an additional tax burden.
- Housing funds are generally structured to collect savings over a period before benefits are accessed. The waiting period could be extended by untimely availability and suitability of the housing units, which could lead to frustration among contributors.
- There could be concerns about the management and accountability of the housing fund, and whether a state corporation would be able to effectively execute the program given the inefficiencies typically associated with government initiatives.

Conclusion

The Housing Fund is a noble idea aimed at providing affordable, quality housing for Kenyans. While the scheme has been met with some scepticism, it is crucial to note that it has the potential to transform the housing sector in Kenya and alleviate the housing crisis. The government should, however, provide clear policy guidance to help all stakeholders understand how the scheme works and how they can benefit from it.

The benefits notwithstanding, the Housing Fund should not be a compulsory scheme. Kenyan citizens should be allowed to consider the affordability of housing in their area, their current financial situation, housing plan preferences and alternative home ownership schemes before deciding whether to join and contribute to the Housing Fund. They should also be provided with adequate information that will allow them to weigh the potential benefits of low-interest loans and allocation processes against the affordability of mandatory contributions and delivery efficiencies around the scheme.

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