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THIS ISSUE:

THE GOVERNANCE OF CO-OPERATIVE HOUSING: CURRENT CHALLENGES AND FUTURE PERSPECTIVES

REFEREED PAPERS: THE FUTURE OF SOCIAL HOUSING: A DUTCH CASE; THE ECONOMICS OF HOUSING CO-OPERATIVES EXTERNALITIES GOVERNING FOR HABITABILITY: SELF-ORGANISED COMMUNITIES IN ENGLAND AND ITALY; A STUDY OF THE FEASIBILITY OF RESIDENT GOVERNANCE IN LOW INCOME RURAL COMMUNITIES IN THE USA: CO-OPERATIVE PRINCIPLES AND CO-OPERATIVE PERFORMANCE; ARE CO-OPERATIVE PRINCIPLES REFLECTED IN PERFORMANCE

RESEARCH REPORTS: INCREASED EFFICIENCY AND CLIMATE PROTECTION THROUGH RESIDENTS PARTICIPATION.

EXECUTIVE OPINION: JAPANESE AGRICULTURAL

BOOK REVIEW: EMPIRE AND CO-OPERATION

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Madam HJH Armi Zainudin, General Manager, Koperasi JCP Merchantile, Kuala Lumpur, Malaysia. Former Director of the Co-operative College of Malaysia

Address for correspondence (for submission of manuscripts, see inside back cover)

Dr. Peter Davis, Chartered FCIPD, AHEA

Unit for Membership Based Organisations, School of Management,

Ken Edwards Building, University of Leicester,

University Road,Leicester, LE1 7RH.United Kingdom.

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Recognition of International Journal of Co-operative Management

The Journal is listed in Cabells Management Directory, the premier journal listing agency in the USA.

Notes on the Contributors

Special Issue Guest Editors

Richard Lang, Dr., is assistant professor at the Institute for Innovation Management at the University of Linz, Austria. His research interests include housing and community co-operatives, co-operative governance, social capital and social innovation. Richard Lang has published in international journals such as *Voluntas*, *Technological Forecasting and Social Change*, and *European Planning Studies*. Between 2011 and 2013, he has undertaken research on the role of co-operative housing for social cohesion for the City of Vienna. Richard has just returned from a William Plowden post-doc fellowship at the University of Birmingham where he conducted a study on community-led housing and localism.

Correspondence: richard.lang@jku.at

Dietmar Roessl, Prof. Dr., is head of the Research Institute for Co-operation and Co-operatives, head of the Institute for Small Business Management and Entrepreneurship and deputy head of the Department of Global Business and Trade at the WU Vienna University of Economics and Business. He holds a post-doctoral degree in the area of Business Administration & Management (“*venia docendi*”). He was a visiting professor at the University Pilsen/Cheb, Czech Republic, and at the Free University of Bolzano, Italy. He is reviewer for several scientific journals, such as *Voluntas*, *Journal of Small Business Management*, *Journal of Small Business and Entrepreneurship* and for the European Science Foundation.

Correspondence: dietmar.roessl@wu.ac.at

Author's

Aina Thompson Adeboyejo is a Professor of Urban and Regional Planning and currently teaches in the Department of Urban and Regional Planning of Ladoko Akintola University of Technology, Ogbomoso, Nigeria. He was one

time visiting lecturer to the Department of Urban and Regional Planning, University of Venda, Limpopo South Africa. His area of research interest are urban and regional development, housing and population-environment relationship. He is a member of several Professional bodies and research award winners.

Correspondence: thompsonadeboyejo@yahoo.com

Christina A. Clamp, Ph.D., is director of the Center for Co-operatives and Community Economic Development and a professor of sociology at Southern New Hampshire University. She is a member of the executive committee of the ICA Research Committee and serves on the board of two co-operative development organizations in the United States, the Food Co-operative Initiative and the ICA Group.

Correspondence: c.clamp@snhu.edu

Eric L. Jacobs, Ph.D., is an instructor at Southern New Hampshire University and Roger Williams University and works as a consultant and researcher in community economic development.

Correspondence: ericjacobs1@me.com

Patricia A. Jones has a Phd and is an associate researcher currently seconded to a Knowledge Transfer Partnership (KTP) with HACT, a national housing charity. The purpose of the KTP is to embed research, knowledge and expertise to underpin HACT's developing work on community investment, localism and social impact in the affordable housing sector. Her research interests include empowering community participation strategies and structures; inter-sector network dynamics; case study research methodology and the role of social housing in meeting housing need.

Correspondence: p.a.jones.1@bham.ac.uk

Terry Lewis is the principal of LIA Advisors, LLC, a private consulting firm. She was formerly Vice President for Co-operative Development with the National Consumer Co-operative Bank, dba NCB, and President and CEO of NCB

Community Works, LLC, an affiliated for-profit affordable multifamily housing development organization. Ms. Lewis was appointed by President Barack Obama to the Board of the Overseas Private Investment Corporation, the federal government's development finance institution. She is the immediate past Chair of the Co-operative Development Foundation. She was inducted into the Co-operative Hall of Fame in 2008.

Correspondence: terry.lewis.lia@gmail.com

Markus Mändle is Professor of Economics and Director of the Institute for Co-operative Studies (IfK) at Nürtingen-Geislingen University (HfWU), Geislingen/Steige, Germany. He is also Member of The Berlin Institute for Cooperative Studies (BICS) at Humboldt-University, Berlin. Markus obtained his degrees (Dipl.-Ök., Dr. oec.) from the University of Hohenheim (Germany). He is member of scientific and professional associations (e.g. gif, ERES, AREUEA, Verein für Socialpolitik). Markus is author and also editor of various publications, primarily regarding co-operatives. In research, he is mainly interested in the application of economic theory to co-operative organizations.

Correspondence: markus.maendle@hfwu.de

Francesco Minora, is a Marie Curie Post doc researcher 2010 programme, co-funded by the Province of Trento & the European Commission. He is an urban planner with a background research experience in social policies at the Politecnico di Milano. He studied the theory of the commons during his Ph.D. studies. He is the corresponding author for this paper.

Correspondence: francesco.minora@euricse.eu

David Mullins is Professor of Housing Policy and leads the Service Delivery and Housing streams in the Third Sector Research Centre (TSRC) at the University of Birmingham. His research interests include the governance, management and regulation of housing, housing need and homelessness, the role of third sector, hybrid

organisations and social enterprises in public service delivery. He is a member of the Coordination Committee of the European Network for Social Housing and has published widely in peer reviewed journals.

Correspondence: d.w.mullins@bham.ac.uk

James Akinjide Oderinde is currently a Senior Principal Lecturer and the immediate past head of the Department of Urban and Regional Planning, The Polytechnic, Ibadan, Nigeria. He holds a Masters Urban and Regional Planning (MURP) degree from University of Ibadan Nigeria and M.Phil (URP) from Ladoke Akintola University of Technology, Ogbomoso, Nigeria. He is a registered Town Planner and a member of several professional bodies including Nigerian Institute of Town Planners. His area of research interest include housing and urban development.

Correspondence: oderindej@yahoo.com

Hugo Priemus is Professor Emeritus of Housing, Delft University of Technology, based at OTB Research Institute of the Built Environment. He is doctor honoris causa at Uppsala University (Sweden), Knight in the Order of the Dutch Lion, and holds the Honorary Gold Medal of Delft University of Technology and the Hudig Medal (awarded approximately once in every five years for exceptional contributions in Dutch housing and spatial planning).

Correspondence: h.priemus@tudelft.nl

Dr. Daphne Rixon is Associate Professor of Accounting. She has a PhD in accounting from the University of Warwick, United Kingdom and is a Certified Management Accountant (CMA). She has over 20 years experience in the private and public sectors as Controller and Director of Finance. Dr. Rixon has a very productive research program which has resulted in over 30 peer-reviewed publications and conference presentations. She is a member of the Editorial Boards for Managerial Finance and the Journal of Co-operative Accounting and Reporting and is a frequent reviewer for Public Management. Dr. Rixon also has taught in the CMA Strategic

Leadership Program for 12 years. She has served on the board of directors for several professional and charitable organizations at both national and provincial levels.

In addition to her position of Associate Professor, she is also the Executive Director of the Centre of Excellence in Accounting and Reporting for Co-operatives (CEARC) where she is responsible for the overall administration of CEARC, co-ordinating research projects and overseeing the development of International Statements of Recommended Practices for Co-operatives.

Correspondence: daphne.rixon@smu.ca

Christin Wemheuer, studied psychology with a specialization in environmental psychology. Former research includes the acceptance of renewable energy technologies, the co-operation of Local Agenda 21 initiatives with commercial and scientific institutions and sustainable habitation. Since 2010 she is scientific assistant in the subproject “Habitation” of the research project “Solidarische Stadt – Genossenschaftliche Handlungsmöglichkeiten in Zeiten des Klimawandels” at the Technische Universität Berlin. The project is funded by the German Federal Ministry of Education and Research within the “Social-Ecological Research” funding priority.

Correspondence: christin.wemheuer@tu-berlin.de

Gabriele Wendorf, studied industrial engineering and was awarded her PhD in economics in 1993. From 1997 to 2002 she held assistant professorship in the field of Industrial Economics and Competitive Theory at the Technische Universität Berlin. 2002 until 2007 she has been head of an interdisciplinary junior research team considering the social-ecological potential of the housing stock of the post war era. 2007-2008 she was visiting professor in the field of architecture and urban development at TU Berlin. Since 2008 she is Vice-president of the TU Berlin.

Correspondence: vp3@tu-berlin.de

Daman Prakash PhD is the Director of the Rural Development and Management Centre-India. Worked as Senior Consultant of the IFFCO Foundation; Served the International Co-operative Alliance Regional Office for Asia and the Pacific [ICA ROAP] since 1962 in various capacities and retired in 2002 as its Director; Served in Indonesia as Chief Technical Advisor of the ILO/UNDP Projects on Rural Co-operatives Management Development, Training and Education [1981-88]; Served in Sri Lanka as Senior Consultant to the ICA/Swedish Co-operative Teachers’ Training Project; Served as Senior Consultant on MAFF/JA-Zenchi/JICA-sponsored Study Missions to Indonesia, Laos, Mongolia, Cambodia and Uzbekistan. He has to his credit several books and articles. Has been awarded Life-Time Achievement Award in Co-operatives-2012 by the World Peace Research and Development Foundation, and, “National award on Co-operative Development” given by Bhutti Weavers’ Co-operative Society Limited, Kullu, Himachal Pradesh, India.

Correspondence: damanprakash@yahoo.co.in or damanprakash01@gmail.com

Editorial

It is a great pleasure to welcome Richard Lang and Dietmar Roessler as guest editors for this the thirteenth issue of the *International Journal of Co-operative Management* and to thank them for the painstaking efforts they have made to ensure a very high quality academic content with some excellent papers and research in the area of co-operative housing and its governance – an area that had been neglected by the journal up to now. In developing this important theme of The Governance of Co-operative Housing: Current Challenges and Future Perspectives they have drawn out some important conclusions and summations in their guest editorial which need no elaboration from me here. It remains however for me to add my thanks to theirs to the reviewers and authors of these outstanding theoretical and empirical papers and also to thank our other remaining distinguished contributors to the journal.

Daphne Rixons' refereed paper is an important empirical study from another previously neglected area as far as this journal is concerned, namely, that of Co-operative Insurance. Daphne Rixons' approach is entirely appropriate for a co-operative academic in that she commences with the idea, not very fashionable in today's academy, of an external measurable standard of 'the good', implied in the statement of co-operative values and purpose. Her paper focuses on the question of how far co-operative values translate into measurable reporting and accounting in co-operatives? The paper provides the reader with an excellent review of the literature as well as some revealing, if in part depressing, empirical results. The 'elephant in the room' which is all but ignored in the literature reviewed by Daphne Rixons is that of 'management culture and practice'. Ian MacPherson once said to me that it was always meant to be the case that the Principles should be supplemented by operational principles. Apart from Davis and Donaldson (1998) there has been no attempt to articulate what is distinctive about co-operative management. Davis (1995) criticised the ICA Principles for not containing a principle of co-operative management. These challenges have been widely articulated in co-operative development circles through the ILO Co-operative Branch, ICA HRD seminars, particularly in the Asia Pacific and African Regions; and at WCCU and ACCU

seminars, and via ICA's former Latin American Project Office. However, the fact remains that the Davis and Donaldson operational principles and definition have been largely ignored in the academic discussions of governance. Yet all the literature and Rixon's own research confirms Davis (1995) prediction that the principles would be ignored in practice by co-operative management. Rixon is surely correct in wanting to *seek evidence* in reported Key Performance Indicators of the Principles *in action*.

Our final contributor to our 'Practitioner Opinion' section Damen Prakesh is well-known amongst co-operative activists in the Asia Pacific region and beyond for his tireless critical advocacy of co-operation. It was the radical neo-classical economist Jaroslav Vanek who raised the question, "Given that intuitively one sees co-operation as a fundamentally good idea why is it that co-operatives generally under-perform?" In his pamphlets, consultancy and training program's over many years Damen Prakesh has tried to answer the question by fearlessly pointing out the shortcomings in co-operative governance that he found in practice. His discussion of the Japanese Agricultural Sector, arguably the most effective in the region, provides an interesting example of a co-operative movement based on very small farmer units. The importance of member unity to gain control of down-stream high value added processes and distribution is one of the valuable lessons his review points to.

In the next issue the *International Journal of Co-operative Management* will focus on the UK Co-operative Bank crisis in the context of the overall continuing decline of the UK Consumer Movement.



Peter Davis

Editor, September 2013

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The Governance of Co-operative Housing: Current Challenges and Future Perspectives

Richard Lang and Dietmar Roessl

This special issue of IJCM is devoted to current research on co-operative housing. There is a renewed political and academic interest in co-operative organisations as alternative providers of affordable housing in recent years. Although the concept is widespread across the globe and has a long tradition, co-operative housing practice is little-known and is just being rediscovered as an innovative alternative to property rental as a means of coping with the increase in demand for affordable housing following the housing crisis in many countries (e.g. Bliss et al. 2013). The role housing co-operatives currently play in national housing markets differs considerably as the following indicative numbers demonstrate: In Estonia, housing co-operatives manage 60% of the country's housing stock, while in Poland housing co-operatives own 20%, and in Sweden and Norway about 15% of the total housing stock. In contrast, co-operative housing accounts for less than 1% of all homes in the UK, Canada and the United States (Moreau and Pittini 2012).

Recent changes in the policy environment for social housing, such as increasing deregulation and liberalisation, have created new opportunities for housing co-operatives but have also redefined their societal role and organisational identity as member-oriented housing providers. This calls for a reconceptualisation of the nature of governance in co-operative housing, similar to the work that has recently been done in governance research on social housing (Mullins et al. 2012) as well as in the research field of non-profit and civil society governance (Steen-Johnson et al. 2011).

Co-operative housing initiatives often fill the gap left by the withdrawal of the state, not only in affordable housing provision but also in urban development, which increasingly involves them in processes of external, societal governance (Flint and Kearns 2006). The current political

interest in co-operative housing has been sparked by the nature of its organisational governance model, which is said to have positive implications for sustainable urban development (Beetz 2008). Positive external effects of co-operative governance practice are mainly seen in the stabilisation and even increasing attractiveness of neighbourhoods through long-term investments in social relationships among residents, or in the physical quality of their housing stocks. As the residents make a financial and organizational commitment to their housing provider, they have a vested interest in keeping rents down and housing quality up, which in turn generates spill-over effects on the housing stock across the rest of the city. Moreover, housing co-operatives engage residents in social entrepreneurship, civic engagement and democratic practices which form key aspects of sustainability in urban development.

Transformations in the policy context of housing, however, also cause changes to the organizational level of co-operative governance. Cutbacks in public subsidies and the involvement in partnership agreements in and between different governance spaces (neighbourhoods, cities and regions) has led to stronger demands for accountability and control of co-operative boards, not only to state bodies and for-profit organisations but also to other third sector providers. Due to the changing competitive environment in housing markets, corporate governance models, with a stronger service orientation in member relations, have become more popular in social housing (Czischke 2009). Nevertheless, marketization and hybridization trends are contrasted by the emergence of new community-led housing initiatives (such as the co-housing or community land trust movement) which have sprung up from different social movements, not always directly linked to the co-operative housing tradition but clearly exhibiting

co-operative principles in their governance (Somerville 2007; Moore and McKee 2012).

The developments described above suggest that the analysis of co-operative housing governance cannot be reduced to the organizational sphere alone but has to be enriched by an external, institutional perspective. We hope that this special issue contributes to moving forward the agenda of conceptualizing co-operative governance with both the organizational and the societal governance aspect in mind. Furthermore, the composition of papers in this issue presents a good illustration of the interdisciplinary nature of research on co-operative housing governance, with scholars from different academic backgrounds engaging in the debate. Furthermore, this special issue covers empirical evidence from different geographical contexts – North America (1 paper), Africa (1 paper) and Europe (4 papers) – making the identification of differences and similarities in current cooperative housing practice possible, even on an inter-continental basis.

The Contributions of this Special Issue

This special edition of the journal includes five, double blind peer-reviewed papers and one research report dealing with the topic of housing co-operatives.

In his refereed paper, *Priemus* explores the overarching theme of a changing external governance environment for social housing and what it means for organizational governance by drawing on current developments and debates in The Netherlands. Traditionally characterized by a unitary rental system, with a large share of the social rented sector (currently 31%), the country has recently adopted a more market driven approach to housing which challenges the current governance practices of social housing providers, with housing associations being the most prominent type. The author suggests that the introduction of co-operative governance elements in housing associations, particularly democratic member control, as well as autonomy and independence, could improve the position of tenants with modest incomes in an increasingly

market oriented housing system. This leads to the question if such an approach could point the way forward for other European countries with housing markets similar in structure to the Dutch one.

Mändle takes his starting point from economic theory and introduces the concept of “externalities” to contextualize the governance of housing co-operatives within their immediate institutional environment. He comes to the conclusion that neo-classical approaches to housing co-operatives’ externalities fall short of fully grasping the concern for community which is a distinctive feature of co-operative governance. Thus, the author suggests that game theory could provide further insights. He shows that housing co-operatives build a reputation as pioneering investors based on the assumption that other protagonists actually know about their characteristics. This insight leads him to recommend the improvement of publicly spread information on housing co-operatives.

In their contribution, *Minora, Mullins and Jones* map a spectrum of community-based housing initiatives in England and Italy. In contrast to the traditional co-operative governance model, these initiatives can be more broadly described as ‘self-organising communities’, a relatively new phenomenon in housing. The authors begin their research by questioning the now widespread assumption that self-organisation is an effective and particularly sustainable approach to housing. They subsequently provide us with the conceptual model of “habitability” – related to Ostrom’s theory of the commons – for analyzing the interplay of internal and external governance elements in six paired qualitative case studies of self-organisation. The analysis shows the co-productive nature of habitability displayed across all studied cases, which is the result of the interaction between the ‘self-organising communities’ and external actors who each bring in their own interests. The comparison of Italian and English cases highlights the types of institutional options and support available for ‘self-organising communities’ in these contexts. Thus, it appeared that English ‘communities’ had more opportunity to choose between various legal

forms while Italian ‘communities’ had just one option, the form of a co-operative. In England, recent policies also provide stimulus funding (albeit relatively small scale) while in Italy there is little state support for innovations in community-led housing which leaves the ‘communities’ to take all the risk. Furthermore, in both countries, it remained difficult for people on low incomes to realize a self-organized housing scheme.

Lewis, Clamp, and Jacobs assess the feasibility of converting existing multi-family rural housing in the United States to resident participatory models, using the resources available through federal government programs. Even with the changing nature of rural communities in the United States, there remains a need for affordable, quality, multi-family housing. People who are elderly and/or disabled but also working families are in need of housing options other than homeownership. Current housing policies have led to tenants becoming more dependent on owners to maintain the status quo and therefore remain at-risk of displacement. The idea of converting a number of existing rural, subsidized, rental developments to a resident inclusive model of management has become increasingly relevant to the political discussion. The authors compare the benefits and challenges of Limited Equity Co-operatives (LECs) as well as Mutual Housing Associations (MHAs) to the existing, traditional, tenant association scheme as potential models for a conversion strategy.

The research suggests that both LECs and MHAs are viable and financially sustainable models. By involving residents in the ongoing management of their properties, they can ensure the long-term availability of affordable, multi-family housing for successive generations. The authors also recommend the establishment of national and regional networks to support the creation of resident-controlled, permanently affordable housing.

Adeboyejo and Oderinde provide a quantitative empirical study on the potential and actual contributions of co-operative housing societies to sustainable housing delivery in Nigeria. The

cooperative movement has been recognized by governments at both the Federal and State level in Nigeria as a possible tool for solving the problem of housing shortage amongst the working population. The paper compares empirical data from co-operative housing societies in three urban centres which have a tradition of co-operative and associational lifestyles and where housing problems are particularly acute. Multiple regression analysis shows that capital base and membership size of co-operatives can only partly explain the number of loan beneficiaries. The authors suggest that extraneous factors such as household income and the possibility of prompt repayment of loans have to be taken into consideration too. The authors conclude that the potential of co-operative housing provision cannot fully be tapped as long as co-operatives are not able to attract more members and they do not have access to mortgage funds from the Federal Government.

The above refereed papers are complemented by a research report by *Wemheuer and Wendorf*. They present results of a research project in Germany which investigated the potential of housing co-operatives for promoting climate-protective action. The authors discuss whether and how participative methods can motivate residents to change their habits and become more engaged in climate protective behaviour. Empirical evidence suggests that low-threshold participative methods are particularly useful in the governance of improvement and alteration of properties.

Conclusions and implications for further research in the field

Although this special issue is based on a limited number of contributions, we believe it provides a good starting point for further research on co-operative governance. All papers in this special issue, mostly but not exclusively of empirical nature, conveniently include both internal and external aspects of governance in their analyses.

From our perspective, the key contributions of

these articles to the research field of co-operative housing are the following:

Firstly, this special issue contributes to a more all-encompassing conceptualization of co-operative governance, going beyond the organizational to the external, institutional environment. The article by *Mändle* as well as that by *Minora, Mullins* and *Jones*, approach this issue from different disciplinary angles and future co-operative governance research can surely build on the conceptual frameworks which they have suggested here. We believe that revisiting the work of Ostrom is especially beneficial for studying co-operative governance in housing, as her approach to the governance of institutions refers to a community rather than just to an organisational level. This view point comes closer to the current reality of co-operative forms of housing provision – as presented in this special issue – and seems particularly appealing in relation to the study of new community-led forms of housing provision.

Secondly, the contributions in this special show the significance of co-operative housing to current housing policy programs in different geographical contexts as diverse as the United States (*Lewis, Clamp, and Jacobs*), Nigeria (*Adeboyejo and Oderinde*), and The Netherlands (*Priemus*). However, when taken together, these articles also suggest that the introduction of co-operative elements into established housing systems presents a unique set of challenges. In this respect, it seems that new, emerging co-operative and community-led housing fields are facing the same challenges experienced by the early co-operative housing movement. Housing co-operatives have not been able to grow and expand significantly through self-help mechanisms alone, given their inherent scarcity of economic capital, compared with other co-operative sectors (Novy 1983). Rather they required some form of external support, such as that of public housing programs, which at the same time threaten organizational autonomy and participatory governance, and as such the whole co-operative nature of these housing providers. However, cases such as that of Vienna show, that there are

examples where public promotion programmes are explicitly linked to sustainability goals (Förster 2002), and that the contribution of housing co-operatives can be leveraged towards urban development (Lang and Novy 2013). The importance of the facilitation of co-operative housing practice by external bodies brings us back to the fundamental argument that in research on co-operative governance, the organizational should not be separated from the societal dimension.

Acknowledgements

The editors wish to thank the contributing authors to this special issue for their efforts and patience in working with us to advance and develop arguments and manuscripts. We also wish to extend our thanks to the external reviewers, who have significantly contributed to enhancing the quality of the individual contributions in this special issue. Finally, we would like to thank Dr. Peter Davis for his kind assistance in preparing a special edition on a field of co-operative research which we believe addresses a number of pressing societal challenges.

Notes

- 1 However, the actual models of co-operative housing vary between countries, for instance in terms of tenures, and this makes international comparisons a difficult task (Bliss et al. 2013).

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The Future of Social Housing. The Dutch Case

Hugo Priemus

Abstract

In many European countries the market driven approach to housing is gaining ground and at the same time the public dimension of housing is being reduced. The financial ties between national government and housing are shifting from property subsidies to housing allowances and tax credits. Regulated rents in quite a number of countries are moving in the direction of market driven rents. Nevertheless, in many countries rents are still distorted as a result of public regulation in place since WW II.

Kemeny (1995) makes a distinction between unitary and dual rental systems. Dual rental systems are mostly a part of a liberal welfare state: the social rented sector is relatively small here and completely different from the market rented sector. Unitary rental systems can mostly be observed in societies with a corporatist and a social-democratic structure. In general the size of the social rented sector is relatively large. The relation between social and commercial rented sectors is rather smooth. The Netherlands is a country, traditionally characterized by a unitary rental system with a large market share of the social rented sector: 31% at the moment.

The share of owner-occupied housing has increased in most European countries in recent decades. The losers are both the commercial and the social rented sector. In a number of countries the social rented sector is moving in the direction of a marginalised sector for a narrowly defined target group. This has also impacted on the governance of social housing providers.

There is, however, another future possible for the social rented sector within a market oriented housing system. The idea has been launched by

economists in The Netherlands that rents could be adapted to market levels in a period of 20-25 years (Priemus, 2010). Housing allowances could be strengthened to guarantee affordability for low income households. At the same time the power of social housing tenants could be strengthened.

Social housing providers are also crucial in a market oriented environment, because they are supposed to give priority to households with a modest income and do not to adopt risk selection as commercial landlords mostly do.

The following research questions are dealt with in this contribution:

- (a) How has the social rented sector developed in The Netherlands since 1995?
- (b) What are the current political debates regarding the future of Dutch housing associations?
- (c) What is the economic justification for social housing providers in a market oriented housing system in advanced economies?
- (d) How to strengthen the power of tenants in social housing?

Co-operative governance could inspire a transition from the current housing associations to social organisations, powered by the occupants.

This contribution uses current developments and debates in The Netherlands as points of departure and attempts to generalise the findings to other European countries with a more or less unitary rental structure.

Key Words

Social housing, housing association, housing allowances, risk selection, The Netherlands

Introduction

We define social housing as housing that is aimed to house predominantly households in a weak negotiating position in the housing market, such as low-income households, physically and/or mentally handicapped, ethnic minorities, immigrants and asylum seekers. The social housing providers are supposed to give priority to households who are not able to provide housing services for themselves without assistance. In general, there is a public framework in place which governs the position of the social housing providers.

In general we observe three main tenures in European countries: owner-occupied housing, commercial rented housing and social rented housing. In some countries a fourth tenure is also popular: cooperative housing. In different European countries the share of each of the tenures is different. Over time, however, we see similar tendencies: an increasing share of owner-occupied housing and a decline in commercial and social rented housing. In Western Europe this transformation was a gradual one. In the former communist countries in Middle and Eastern Europe this transformation has manifested itself as a revolution: by selling public housing to the tenants many of those countries achieved record shares of owner-occupied housing; the rented sector became a no man's land in most of these countries (Priemus and Mandic, 2000).

In most European countries we observe a long-term development towards a marginalisation of the social rented sector and, as a result, an increasing stigmatisation, even in The Netherlands (Van Kempen and Priemus, 2002). Harloe (1995) speaks about social rented housing as a transitional tenure: a tenure which has only a substantial share in extreme conditions, such as the period of general housing shortages following the First and Second World War.

In this contribution we deal with the following research questions:

- (a) How has the social rented sector developed in The Netherlands since 1995 (sections 2 and 3)?

- (b) What are the current political debates regarding the future of Dutch housing associations (section 4)?
- (c) What is the economic justification for social housing providers in a market oriented housing system in advanced economies (section 5)?
- (d) How to strengthen the power of tenants in social housing (section 6)

Section 7 presents some lessons to be learnt from the experience and debates on Dutch housing associations.

Dutch social housing: part of a unitary rental system?

Sections 2 and 3 deal with the first research question: How has the social rented sector developed in The Netherlands since 1995?

The specific character of the Dutch social housing system lies in its long tradition, its large market share and its financial strength (Whitehead and Scanlon, 2007). The market share of social rented dwellings is 31% at the moment, which is higher than in any other EU-country. The second characteristic is that the Dutch social rented sector is relatively rich. The Balancing and Grossing Operation, implemented in 1995, made housing associations financially independent from national government (Priemus, 1995). Since 1995 interest rates, inflation rates and rents developed in a much more favourable way than was assumed beforehand.

The Dutch social housing sector is hybrid in that it combines public and market activities. This hybrid character has created some confusion about the scope of activities which are acceptable, about the type of risk that can be tolerated and about the question whether housing associations operate on a level playing field or not and whether they ought to receive legal state aid (Gruis and Priemus, 2008).

In the theoretical literature on housing the Netherlands is mostly presented as the country in which the rental system is unitary, according to the approach of Kemeny (1995). This means that

the rent-quality ratio in the social rented sector does not differ too much from the ratio in the commercial rented housing sector (Haffner et al., 2009). This is mostly seen by housing analysts as a strength of the Dutch housing system: it makes room for market dynamics and market differentiation within a broad public framework. As a characterization of the Dutch housing system this simple qualification is at least incomplete. We present two additional observations.

- (1) Within the rented sector EU competition policy is relevant, this promotes a level playing field between social and commercial housing providers. Housing associations receive State Aid, in particular from the public fall-back from the Social Housing Guarantee Fund (Waarborgfonds Sociale Woningbouw: WSW). It is not considered acceptable by the European Commission that housing associations receive State Aid and at the same time demonstrate a similar rent-quality ratio as commercial landlords, who do not receive State Aid (Priemus, 2006; Gruis and Priemus, 2008). This would be considered to be a waste of public money. As long as social housing providers receive State Aid, a definition of a target group for social housing is needed and a clear distinction of markets between social and commercial housing providers has to be made. EU competition policy cannot be matched very well with unitary housing systems.
- (2) Even within the rented sector the Dutch system is less unitary than is suggested in most housing studies. An important aspect of housing quality is the location and the region in which the property is situated. The most important variable, which determines the market price of a house (and also the market rent of housing services) is the number of employment opportunities that can be reached within half an hour travelling time from home (Visser and Van Dam, 2006). In the case of regulated rent (in the Netherlands more than 90% of all rents, including a part of

the properties owned by commercial investors, are regulated) location is not taken into account in any formal way. The regional differentiation of market rents and the differentiation in location would be much larger in a free rental market than the current, regional differentiation of regulated rents. This is obvious when comparing regulated rents and free market rents (Romijn and Besseling, 2008). In urbanized parts of the Netherlands, where there is strong pressure on the housing market, the Dutch rental system is dualist instead of unitary.

Changing profile of Dutch housing associations

Dutch housing associations are based on the Housing Act of 1901, which has introduced the status of Admitted Institutions for housing associations: private institutions with a social remit, some of which were already formed in the second half of the 19th century, decades before the introduction of the Housing Act. In addition, municipal housing companies were formed, which provided social housing via a public trajectory. Admitted Institutions are non-profit institutions that are obliged to use their capital solely in the interest of social housing.

Before the First World War the market share of housing associations and municipal housing companies was limited. In the 1920s and after the Second World War (1950s-1980s), when the free housing market and the housing construction market failed to function properly, the stock of social rented dwellings increased considerably, largely as a result of the property grants provided by national government.

Between 1950 and 1992, the market share of the Dutch social rented sector increased gradually from 12% to 42%. After this, the owner-occupied sector continued to grow and the share of the social rented sector has fallen back to 31% today.

The Social Rented Sector Management Decree

(Besluit Beheer Sociale-Huursector: BBSH) of 1993 sets out the public tasks to be fulfilled by housing associations (Priemus, 1997):

- (1) to give priority on the housing market to households that cannot provide for their accommodation needs independently;
- (2) to involve tenants in decisions on policy and management of the housing associations;
- (3) to realise a high quality of housing unit;
- (4) to invest in quality-of-life within the housing environment;
- (5) to safeguard financial continuity of the housing associations;
- (6) to contribute to the integration of housing and care.

On the basis of criteria (4) and (6), the housing associations are also supposed to develop and operate social property in the areas of care, health care, education, culture, community and neighbourhood facilities.

The basic aims of social housing are set out in the Aedes code (Aedes is the umbrella organisation of Dutch housing associations):

“Associations must do everything within their power to bring about good housing, in cooperation with the people who call on them to provide housing for them. For people on low incomes, who above all require good-quality, affordable housing. For elderly people, who want to remain independent for as long as possible. For people who are looking for their first property, without having to wait for years. For people with psychological and physical problems, who want to lead fulfilling lives. For people who live in disadvantaged areas who want the prospect of improving their living conditions. For those who have had very few opportunities in life: homeless children and adults who need a roof over their heads”.

These main tasks are deeply anchored in the culture and mind-set of the majority of housing association staff.

Since the 1960s, there has been a process of increasing independence of housing associations (Gerrichhauzen, 1990; Faber, 1995). In this

process the Balancing and Grossing Act of 1995 was a milestone: on one day (1 January 1995) the housing associations received the present value of all allocated subsidies, while they redeemed all public loans at once and replaced them with private loans (Ministerie van VROM, 1994; Priemus, 1995). This meant that the financial ties between the State and the housing associations were cut, and that the housing associations had to continue without new subsidies. Moreover, it was decided that a housing association could appropriate the full price of a sold, rented dwelling.

The Balancing and Grossing Act has given a huge impetus to the process of independence and entrepreneurship among housing associations. Dieleman (1996) refers to ‘The quiet revolution in Dutch housing policy’ (see also: Dieleman, 1999). In practice, more independence means an increasing entrepreneurial attitude, in which housing associations become more active in acquiring land (Segeren and Buitelaar, 2009) and in developing real estate: not only social rented housing, but also commercial rented housing and owner-occupied housing (Ouweland and Van Daalen, 2002; Priemus, 2003).

More independence also means taking more financial risks. Treasury management, formerly unknown, has become a strategic activity of housing associations. Because the interest rate after 1995 was lower than predicted during the Balancing and Grossing operation, the housing associations became richer. Most housing associations are now well-off in terms of the size of their capital but more restricted in their cash-flow, in particular since 2008, when the credit crunch hit the banks, housing, real estate and the construction sector also in The Netherlands.

An unprecedented process of scaling-up has been taking place since the 1980s in the housing association world. Since then, the number of housing associations has decreased to less than 400 housing associations at the end of 2012, while the average size of the housing associations has continually increased (on average 6,000 dwellings at the end of 2012). Each of the largest housing associations (Vestia The Hague / Rotterdam,

Ymere Amsterdam and De Alliantie Amersfoort) own between 60,000 and 80,000 dwellings.

The great challenge facing a social or hybrid organisation is that there are usually insufficient incentives for efficiency (Conijn, 2011). On the one hand there is the threat of bureaucratisation, on the other side there is the danger of gold plating. The extensive excess of capital is reflected in employees' salaries: in 2008, 110 directors of housing associations earned more than the Dutch prime minister. Public regulation and benchmarking can offer a solution to this problem (Gruis et al., 2009), in combination with internal and external supervision. After 1995 financial crime and corruption in the social housing sector also became evident (Bieleman et al., 2010). Since 2009 this has put the issue of integrity high on the agenda of housing associations.

Housing associations are only partly exposed to market risks and are not fully disciplined in the constraints of the market (Wolters and Verhage, 2001). Little is known about the efficiency of housing associations. Achievements are defined so vaguely and can vary so much at local level that reliable information about the effectiveness of housing associations is also inadequate across the board. Recent calculations of the internal rate of return suggest that the efficiency of housing associations in The Netherlands is low, partly as a result of the public framework (such as rent policy), partly as a result of the wasteful attitude of housing association management (Conijn and Schilder, 2011).

Current political debates about Dutch housing associations

Section 4 discusses the current political debates about Dutch housing associations (research question nr. 2). Since 1995, the year of the Balancing and Grossing operation, the relationship between Dutch government and the housing associations has been increasingly under scrutiny.

Until recently the dominant view was that the

housing associations should operate as social enterprises in consultation and cooperation with local partners, and with as little interference as possible from the national government in The Hague. Successive governments have attempted to address the issue of defining or redefining the nature of the relationship between the state and the housing associations, but largely due to the diverging perspectives of successive governments, these efforts have borne little fruit to date.

The role of the municipalities

The Housing Act states that social housing policy is a responsibility for both national and local governments. It is considered essential that the municipality sets out its housing policy clearly in the municipal Housing Vision, and indicates what it expects from the housing association(s). The municipality must make result-oriented, quantifiable performance agreements with the housing association and evaluate these every year (Severijn, 2010). The Ministry of Housing will intervene when housing associations appear to be underperforming relative to national and local housing policy.

Target groups of the policy: discussion with Brussels

On December 15, 2009, the Dutch government reached agreement with the European Commission about the target group for the housing associations. In order to avoid unfair competition with commercial landlords, associations have to allocate at least 90% of vacated housing units to households with an annual taxable income of €33,000 or less (reference date: 1 January 2010). Changes in income after allocation are not taken into account. Of all households in the Netherlands, 43% have an annual taxable income of €33,000 or less. As a result of this agreement, the distinction between housing associations and commercial landlords has increased.

The Dutch rental system is becoming less unitary. This agreement between the European Commission and the government of a member state may be important to other EU-countries (Gruis and Priemus, 2008). Care should be taken to keep the administration of public duties and of

commercial activities of housing association separate, to avoid a situation in which market risks in the social sector have a knock-on effect, or to make sure that fair competition in the market is not disrupted by cross subsidies.

Internal and external supervision and monitoring

Recently Parliament decided that a new Financial Housing Associations Authority will be established with the status of autonomous administrative authority, which will be responsible for the external financial supervision of the associations. This external supervision will relate to the associations' financial policy and conformity with the European competition policy. The newly created Authority will continue to build on the knowledge and experience of the Central Housing Fund.

The external supervision on the integrity and performance in terms of providing housing services will be conducted by the Minister of Housing (Commissie-Hoekstra, 2012). This split in external supervision of housing associations has been widely criticized: many observers argue that one external supervisor would offer a better solution (Commissie-Schilder, 2006; Smit and Boelhouwer, 2009). Such an Authority would be responsible for imposing the most commonly applied sanctions on housing associations, but for issues of a political nature, sanctions will remain the prerogative of the minister.

Current housing policies of the Rutte II Cabinet

The Netherlands, Europe and large parts of the world are in the grip of a global debt crisis. This has made the Dutch Cabinet feel compelled to cut public spending heavily. The banks are playing a central role in this financial-economic stagnation. Overall, it is getting harder to obtain finance for investment. In Basel III the banks agreed to build more buffers to improve their resilience.

The debt crisis has slowed down mobility in the property market and caused a shift in demand from expensive to cheap housing and from home ownership to renting. A growing surplus is discernible in the owner-occupied sector and a growing shortage in the rental sector. In 2011 and

2012 the share of housing associations in new housing construction was 60%. Under such circumstances one might reasonably expect more new-builds in the rental sector and a slow-down in the supply of owner-occupier properties, but that is not the purpose of the current national policy.

The Rutte I Cabinet has developed a Review of the Housing Act to establish the remit of housing associations within the Act. This includes the target group definition approved by the European Commission (raised to an annual income of about €34,000 from 1 January 2012) and the obligation to allocate a minimum of 90 percent of the annually available social rented dwellings to the target group.

The spending cuts of the Rutte II cabinet will hit the rented sector in particular. A Landlord Levy has been announced for landlords with housing units with regulated rents. This will cost the housing associations about 1.7 billion euro each year, to be financed by extra rental income. Calculations demonstrate that this will reduce investments in new housing dramatically and that it will destabilize the housing association system.

Social housing provision: towards a market-oriented framework

In this section we deal with the third research question: What is the economic justification of social housing providers in a market oriented housing system in advanced economies?

If the government were to aim for market prices for housing and housing services in both the rented and the owner-occupied sector, supplemented by a robust system of housing allowances for households with a modest income, this would lead to a simple housing system in which the government treats purchasing and renting according to the same principle (tenure neutrality). In most European countries, this would mean a considerable simplification in comparison to the current pattern in which large sums of money are pumped around the system (Malpass, 1997).

In the European Union, countries such as

Sweden and the UK, took the path of far-reaching housing finance reform in the 1990s: in these countries, tax credits were gradually but significantly reduced. An attractive perspective would be a model in which both in the rented and the owner-occupied sector, implicit and explicit subsidies were dismantled as much as possible, with the exception of income-related support through housing allowances or vouchers for both tenants and owner-occupiers. In the rented sector, this would mean that – through regulated rent adjustments – a process leading to free-market rents could be initiated, for both the commercial and the social sector. Such a system is elaborated upon in Priemus (2010).

In most markets, economists and politicians accept the equilibrium price, whereby (according to market theory) demand for goods and services equals supply. In stating this, we bypass the interesting argument presented by Kornai (1971) that in free markets there is usually a shortage (*suction*), or a surplus (*pressure*) rather than an equilibrium. In the field of housing, the rationing effect of an equilibrium price is not generally accepted. Every household, which is entitled to stay in a country or has the nationality of that country, has the right to a home: the housing need of such a household is recognised. The starting point for this approach is normally that of the free market, even though housing markets are inherently imperfect as a result of barriers in mobility, a lack of information, the dwelling being tied to a fixed location, delays in reactions of market actors and a number of both positive and negative external effects. A free market is supposed to provide the right incentives for investing in residential properties and may meet a differentiated demand. In most countries, even despite a ‘balanced market’ or even with overhangs, poverty and/or discrimination is leading to certain groups being unable to cater for themselves in the market.

The problems with ability-to-pay, given the price of housing services, are first of all related to low incomes. So an income-related subsidy, to be received by the household, is considered more and more to be the most efficient form of housing

support. After World War II many property subsidies were introduced to stimulate the supply of new dwellings and to provide compensation for rent control. The weak point of this subsidy is that the subsidy continued even when the income of the household increased: therefore the mismatch between the provision of subsidies and the need of the household grew. Since the Second World War, Europe has undergone a gradual shift from property subsidies to income-related housing allowances (Kemp, 2007). The benefits of housing allowances are that they are strongly targeted, that they do not result in stigma or spatial segregation and that they leave households as much freedom as possible in the housing market. The commonly known disadvantage is the poverty trap: part of any rise in income is countered by a reduction in subsidy.

One could argue that a social housing sector is not necessary, as long as a well-functioning scheme of income-related subsidies is in operation. In Germany the *Gemeinnütziges Wohnungswesen*, the traditional social housing provider, lost its social profile. *Wohngeld* (income related subsidies) became the new core instrument of social housing policy in this country. Commercial landlords are required to behave as social landlords as long as they receive temporary property subsidies. Evaluation research has shown that, in areas with a tight housing market in Germany, low-income households, the elderly and special-needs groups are increasingly being excluded (Droste and Knorr-Siedow, 2007).

The development towards market rents could transform the social rented sector into a transitional tenure (Harloe, 1995; Priemus, 2001a). This would be a dangerous development because, as a result of risk selection, poor households will be confronted with housing problems, even when housing allowances are available. A traditional, commercial market actor will seek to either avoid high-risk categories of tenants, or to price high risks excessively. He will aim for tenants with an above-average household income, preferably in permanent employment. Households with a relatively low income are often regarded as a less attractive target group,

bringing too great a risk of loss of rent, rent arrears, vandalism and nuisance to the neighbours. Households with a modest income and/or specific disabilities often fall through the cracks in a free housing market.

Besides commercial actors, a free housing market needs investors and managers with a social profile, who give priority to households not being able to independently take care of their own housing provision, who invest even when economic conditions are not favourable and who are also willing to be active in areas which are not perceived to be commercially attractive, such as problem districts in urban and rural areas. Such social housing providers should operate in a public framework and should be able to obtain financial support from central government under certain conditions. Particularly in imperfect housing markets and housing markets which are inherently volatile, due to delayed reactions to changes in demand, it is important to have stable, socially motivated housing providers who give priority to the provision of housing for more vulnerable and risky groups and to undertake activities in locations where commercial market parties are absent. Housing associations in the Netherlands have a strong track record in this field and have shown that they are at their best in places where and in times when commercial market parties are nowhere to be seen. This represents the justification for the continued existence of housing associations, even (and perhaps especially) in a market-oriented environment.

Strengthening the power of tenants

The following section addresses the fourth research question: How to strengthen the power of tenants? Prior to 1995 a large section of Dutch housing associations had the legal form of an association of tenants. This gave opportunities for internal democracy, which were not always used. A number of scandals happened in the 1990s, when some tenant groups decided to sell properties of the housing associations to themselves for a reduced price. Apparently some tenants had problems in disentangling the roles of housing consumer and social housing provider.

In particular since 1995 we observe not only many mergers between housing associations and an increasing scale of social housing provision, but also a transition from association to foundation, accompanied by a transition from internal towards external democracy. Tenant associations became formally independent, were supported by the housing foundation with some money and facilities (meeting room, copying facilities, computer, telephone) and were supposed to negotiate every year on rent adaptations, maintenance and energy insulation. The housing foundation was led by a Board of one or more directors, supervised by a Board of Commissioners. One or two of the Commissioners were nominated by the tenants. According to the BBSH 1993 the director had the obligation to inform the tenant representatives about all issues of housing management and housing policy and to listen to the arguments of the tenants before taking decisions.

There are those observers in the Netherlands who argue that the position of the tenants in social housing has become marginal. They are primarily consumers of housing services and they are not heavily involved in decision-making process. Some commentators, including the chairman of Aedes Marc Calon, suggest that housing cooperatives would improve the position of the tenants considerably. Others, like Adri Duivesteijn, former member of the social-democrats fraction in parliament, former alderman in Almere, and now member of the Senate, propose the status of an association of owner-occupiers. He advocates the transfer of housing units from housing associations to small-scale housing cooperatives ('wooncoöperaties') (Duivesteijn, 2013; 2014). This is at least a provoking perspective, but many issues remain unresolved, such as: how can the occupants be responsible for new housing development, how to deal with financial risks (especially for owner-occupiers with a mortgage) and how to maintain the priority of target groups with low income, disabilities, difficult behaviour and born in a country far away.

The UN Right to Adequate Housing (UN Habitat, 2008) considers a strong influence of occupants in the management and development of

housing as a fundamental human right. This pinpoints a weakness in the housing systems in Europe, including Dutch social housing (Priemus, 2011). Urgent work is required on strengthening the role of tenants in the social housing sector to meet the UN Right to Adequate Housing. Elements of the cooperative formula could be introduced in Dutch social housing to reach this goal.

A way forward could be additional legislation, in which a distinction is made between four categories of decisions on social housing:

1. Decisions by individual households, for instance on renovation, energy quality, maintenance, lay-out, kitchen and bathroom components, furniture and use of the housing unit, including garden and balcony.
2. Joint decisions by households, living in the same estate, for instance on the use and lay-out of the direct environment, and improvement and repair of the communal areas (foundation, roof, façade, parking facilities).
3. Decisions by the board of a housing association, for instance about strategic management of the stock, acquisition and selling of properties, demolition, treasury management, rent policy (within public framework), allocation of vacant housing units. These decisions are mostly taken after informing and consulting all tenants involved.
4. Public decisions (municipality, region, national state) for instance on rent policies, housing allowances, allocation rules and priorities, priorities in urban regeneration and restructuring, subsidies, fiscal arrangements and taxes. These decisions are taken after informing and consulting both the national association of social housing providers and the national tenants association.

In the Netherlands a paradigm shift is certainly needed from decisions in the category 4 to 3, and from 3 & 4 to 1 & 2. International experience with co-operative governance could be very helpful for the Dutch social housing sector (Laszlo, 1991; Phelan et al., 2012). Sometimes synergies between housing and economic regeneration can be sought

(Ellerman, 1983; Dawson, 1991). In most cases a focus on tenant control (Foley and Evans, 1994) and self-build housing (Newman, 1995; Duivesteijn, 2013) inspired the occupants of social housing in the Netherlands in the first place. The road to structural participation of social housing tenants in the Netherlands will be long and winding.

Conclusions. Lessons to be learnt from experience and debates on Dutch housing associations

The danger of stigmatisation can be kept at bay by ensuring that social housing accounts for a solid market share of the total housing stock, for example 15% or more. In the European Union, we find a relatively broad, differentiated social rented sector in the Netherlands (top of the EU rankings with a market share of 31%), Austria, Denmark, Sweden, the United Kingdom and France, countries characterized by a more or less unitary rent system (Kemeny et al., 2005). The gap between the social and market rented housing sector is nevertheless pretty wide in these countries (Haffner et al., 2009). Residential mobility between the social and the commercial rented sectors is difficult to achieve due to the complicated transition between both sectors.

In the Netherlands it may well be possible, as a result of low land prices, modest ROI ambitions and publicly guaranteed private loans, to realise new rented dwellings with rents lower than €650. Commercial landlords pay mostly higher land prices and have higher ROI expectations. This means that rents of new dwellings in the commercial rented sector are mostly not lower than € 900,-. For households with a taxable income of more than € 34.000 (1-1-2013) there is an increasing lack of housing supply.

This means that tenants easily become trapped in the social rented sector. As long as regulated rents are much lower than market rents, there are implicit or explicit subsidies which tenants will lose if they were to move to a home with a market rent. There is a real danger of illegal subletting, inappropriate occupation of the social housing stock and barriers to residential mobility. This is the current

situation in the urbanized part of the Netherlands with much pressure on the housing market.

A number of lessons can be learned from the experience of Dutch housing associations.

First and foremost, a social rented sector needs to be embedded in a Housing Act which regulates the status of social housing providers. These providers must offer priority to households who are incapable of independently organising their own housing provision. The housing associations should be private bodies with scope for social entrepreneurship. Municipal and regional authorities should periodically formulate a Housing Vision as a framework for agreements with individual housing associations. Housing associations should consult tenants regularly on matters of policy and management and should have a clearly defined target group based on, amongst others, maximum household income. Housing associations should use State Aid solely for the execution of their social remit. The administration of social and market activities must be kept well separated, in order to prevent cross-subsidisation; the risks of these activities must not be transferred to the social remit. Integrity and professionalism are essential requirements for the staff of social housing providers.

Social sector rents should move, step by step, towards free-market level. This will reduce the need for property subsidies, will make the rental structure more unitary and stimulate investments in new rented housing. A broad system of housing allowances must be in place to guarantee the affordability of decent housing. In this proposed transition of the social housing sector strengthening the position of the occupants is crucial. Elements of co-operative housing could be introduced in the housing associations, transferring the ownership of housing associations from managers to (representatives of) the tenants (Rohe, 1995; Miceli et al., 1994).

Where non-profit housing is influencing, leading and dominating the unitary rented market (Kemeny et al., 2005) governments should aim towards a clear, not too restrictive public framework, in which social landlords can develop their entrepreneurial skills to realise social tasks.

Various countries within and outside the EU have a social rented sector with a small market share, from 1% to 5%, such as Belgium and the USA, as well as a number of East European countries, including Hungary, Bulgaria, Romania and Albania. These countries are recommended to considerably increase their social rented sector, to differentiate it and, where applicable, to privatise it within a clear public framework. For countries with a relatively large social rented sector, the discussions and policy in the Netherlands may be directly relevant (Boelhouwer and Van der Heijden, 1992).

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The Economics of Housing Co-operatives Externalities

Markus Mändle

Abstract

This paper discusses the externalities of co-operative housing from an Economics' perspective. It is shown, that housing co-operatives do not only cause positive pecuniary, technological and psychological externalities, they also help to avoid negative externalities of the local housing market. This connection to externalities is inherent to the governance structure of co-operatives, implying a long-term oriented, intergenerational and sustainable development of the housing stock in combination with strong local roots, a disregard for short-term profit maximization and a concern for community. Regarding housing policy, it can be shown, that a market-based Coase solution of housing co-operative externalities seems to be impracticable due to the prohibitively high transaction costs of the numerous protagonists involved. So governmental subsidies equivalent to the externalities caused could be considered. Whereas the concept of merit goods seems problematic to justify these subsidies, a Pigouvian subsidy of housing co-operatives could theoretically be possible but it raises serious problems in practical application, not only due to reasons of pure measurement, but also methodologically. The traditional neoclassical theory of externalities is obviously not suitable to regard the complexity of a co-operative. However, a contribution to further development could possibly be made by game theory. As shown in a multiplayer, infinitely repeated game dilemma situation, housing co-operatives signal a credible commitment for co-operation and could build a reputation as pioneering investor – based on the assumption that the other protagonists actually know about their specifics. An improvement of public information regarding housing co-operatives therefore is recommended.

Key words

Housing co-operatives, externalities, housing policy, game theory.

I. Introduction

In recent years the concept of "Stadtrendite" (urban benefits of housing activities) has been discussed in German housing policy, primarily related to publicly-owned housing companies. Meanwhile also, the social benefits housing companies create for neighborhoods, quarters, communities and a sustainable development are intensely discussed within the co-operative housing sector. Obviously, the social benefits created by co-operatives are essential for their interrelation with the government and their role in housing policy. Against this background, this paper discusses the social benefits of co-operative housing from an Economics' perspective. In Economics, a divergence between private and social benefits (or costs) is called an "externality", so firstly in this paper the concept of externalities is introduced. Afterwards, externalities are explained as an important characteristic of the housing market. In the following, the externalities of co-operative housing are described. By doing so, this paper tries to find out why housing co-operatives and externalities are apparently closely connected. Finally, the consequences of the co-op's externalities for housing policy are discussed.

II. Externalities

Regarding public debates, the term "externality" is used quite heterogeneously. Even in economic literature various definitions can be found, accenting different characteristics of this matter. A popular definition is given by Fritsch (2011, 80). According to this definition an externality generally occurs in cases when the utility - or

profit function of a protagonist A (U_A) contains at least one variable (Y) that – apart from his own action parameters ($X^1_A, X^2_A, \dots, X^i_A$) – is not (completely) controlled by A but by one (or several) other protagonists. Therefore, in the case of an externality we obtain

$$U_A = U_A (X^1_A, X^2_A, \dots, X^i_A, Y).$$

Mankiw (1999, 219) defines externalities similarly as an impact of economic activity on the welfare of an uninvolved third person. With regard to the externalities of co-operative housing discussed later, Kruse et al. (1996, 181) illustrate an interesting point: According to their definition an externality occurs if the action of a protagonist directly causes costs or benefits for other protagonists *which are not adequately considered in the decision calculus (utility-or profit function) of the originator*. Consequently, the misallocation of external costs or benefits is constitutive for an externality and the actual reason for market failure.

In Economics, the theory of externalities was primarily evolved by Arthur Cecil Pigou (1877-1959), the famous neoclassical economist, regarding – according to his Marshallian Cambridge tradition – divergence between social and private yields as being responsible for shortcomings in market performance (Cansier, 2012, 241). Pigou was a founding father of environmental economics, where the case of negative externalities is often discussed. A negative externality occurs, when social costs exceed private costs (e.g. air or water pollution by an industrial firm). However, positive externality can be found when the social benefits of an action exceed the private benefits combined (e.g. immunization protection). Positive and negative externalities can occur either on the production or consumption side of a good. Jacob Viner (1931) differentiated pecuniary from "real" technological externalities: Whereas pecuniary externalities merely show a transformation of scarcity relations and control the market allocation in an efficient way (e.g. an increasing demand for personal computers leads to a price decline of typewriters), technological externalities arise from physical

connections between the utility-or profit functions of different protagonists which are not adequately considered by market mechanisms (e.g. a firm's air pollution causes health problems in the neighborhood).

Finally, psychological externalities occur, when the utility level of a protagonist is influenced by a third party without a physical connection, or a market-based relationship (e.g. a person envies his neighbor's new swimming pool). In contrast to pecuniary externalities, technological (and in some cases also psychological) externalities are crucial factors of market failure (Fritsch, 2011, 81). As a result, the usually Pareto efficient, marginal cost pricing rule – marginal benefit (price) equals marginal costs – produces "wrong" outcomes, which means inefficient allocation of prices and quantities.

III. Externalities of the Housing Market

All real estate students learn soon, that externalities are also an important characteristic of the housing market (e.g. Kühne-Büning et al., 2005, 79). Dwellings are part of an urban settlement. Their occupation affects the neighborhood (Expertenkommission Wohnungspolitik, 1995, 54).

In this context externalities may cause serious problems, especially regarding the decline of residential areas (Eekhoff, 2006, 48 f.). The utility level spent by a dwelling does not only depend on the apartment sizes and building qualities, but also on the positive and negative externalities of the living environment. An apartment located in a slum area with high vacancy and crime rates, with many buildings in bad condition, dilapidated facades, broken windows, inadequate ventilation and illumination, high building density, unhygienic conditions, noisy transport facilities and a nearby polluting industry will be attributed a significantly lower value than a physically comparable apartment located in an elegant residential area with spacious-sized lots, open landscape and local amenities (e.g. shopping, culture, education, recreation). Living environment in the aggregate can not be

influenced by the homeowner (Eekhoff, 2006, 49). So, according to Fritsch's definition of externalities the living environment of a dwelling would represent the non (completely) controllable variable (Y), which, in fact, as we have seen, consists of various uncontrollable determinants (Y_1, Y_2, \dots, Y_n). Altogether, they influence the utility level a dwelling spends on its occupant A (U_A) – truly combined with A's apartment-specific own action parameters, such as the apartment size, floor plan etc. ($X^1_A, X^2_A, \dots, X^i_A$).

On the housing market all kinds of externalities can be found. Pecuniary externalities, for example, may evolve from a shift in housing demand. If it becomes "en vogue" to live in Quarter A, because currently all the trendy people want to live there, nobody wants to live in Quarter B anymore. As a consequence, excess demand pushes up prices in Quarter A, whereas, at the same time, the excess supply in Quarter B causes a decline of prices there. Usually, these externalities are – at least in the long run – adequately "pecuniary" internalized by the pricing mechanism (with the exception of permanently inelastic supply curves of housing space). Technological externalities require true physical connections between the parties involved (e.g. resident's diseases as a consequence of surrounding air pollution, construction-caused security risks), so in many cases the "disturbance" on the housing market will not be of physical but of psychological nature (e.g. a person is aesthetically disaffected by the dilapidated facades of the house next-door, or feels harassed and molested by the rude people living there). As we see, for an occupant externalities of the housing market are mainly externalities of consumption (they occur by consuming the good "housing"). But for a homeowner they also affect his willingness to invest. Therefore, the return a homeowner earns depends on the investments of other homeowners. This implies a classic prisoner's dilemma situation which can be illustrated in the following single-period normal form game matrix (cf. also Davis and Whinston, 1961, 108 ff.; Eekhoff, 2006, 49 ff.):

		Owner 2	
		Invest (C)	Not Invest (D)
Owner 1	Invest (C)	4,4	2,5
	Not Invest (D)	5,2	3,3

Let us simplify, consider two protagonists (Owner 1 and 2) trying to determine whether they should make an additional investment for redevelopment. Therefore, it is assumed that each protagonist would obtain a return of 4 if both owners make the decision to invest in their property. In game theory we would say that this is a case of "co-operation" of both players (C,C). But this case is unlikely, because under the conditions given there is an incentive for each player for "defection" in taking a free rider-position: If, for example, only Owner 1 invests in his property, Owner 2 is able to obtain some of the investment benefits for a better neighborhood without contributing redevelopment measures himself. The tenants of Owner 2 would consider the better living environment and pay higher rents, whereas the tenants of Owner 1 make a markdown due to the inappropriate surrounding. Simultaneously, Owner 2 – in contradiction to Owner 1 – saves money by not investing. Altogether, this increases the return of Owner 2 up to 5, whereas the return of Owner 1 will decrease down to 2 (C,D). The reverse situation where Owner 1 defects and Owner 2 co-operates (D,C) realizes similar payoffs vice versa (5,2). It is obvious, that, given these conditions, both players will defect: (D,D) is the Nash Equilibrium of the game evolving from both player's dominant strategies (D strictly dominates C). Due to the fact that a bilateral co-operation (C,C) would produce Pareto improvement, the actually realized Nash Equilibrium is not Pareto efficient.

Respective to housing policy this dilemma situation, which occurs as a consequence of negative externalities, has been – especially in the USA – intensely discussed in the context of an accelerated "filtering down" of quarters to an inevitable emergence of slums (e.g. "broken windows theory" by Kelling and Wilson, 1982).

It should be noticed, that this development does not assume a quarter already effectively declines – yet it is sufficient that the owners consider this could happen. On the other hand, negative externalities do not automatically convert a quarter to a slum: In addition to insufficient town-planning, an accelerated filtering down-process usually requires multiple buildings to be affected, or even parts of a quarter to show stronger symptoms of decline. But there is still another problem caused by externalities: The blocking of a quarter's self-renewal "filtering up"-process. As we have seen in the dilemma situation, a potential investor trying to determine whether he should invest in the redevelopment of a degenerated quarter has good reasons to doubt whether his neighbors are willing to invest as well ("defection" strictly dominates "co-operation"). Therefore, a pioneering investor bears high risks and the dilapidated quarters may persist in their condition (Eekhoff, 2006, 54–60).

IV. Externalities of Housing Co-operatives

Housing co-operatives basically differ from other market actors by creating value for their members (Beuerle and Mändle, 2005, 13; for a general overview of housing co-operatives see Mändle, 2005, a brief account of the specific national co-operative housing sector in various countries is given by Eichwald and Lutz, 2011). On creating this "Member Value" – which mainly can be seen in a supply of good quality and fairly priced housing space for their members, who additionally enjoy the benefits of democratic co-determination and protection from opportunistic rental termination – housing co-operatives also provide utilities for the public. These utilities are often called "Public Value" (e.g. Theurl, 2008; Beuerle, 2011). Recently, in this context the term "Sozialrendite" (social return on investment, SROI) is also discussed (Lenk et al., 2010) as further development of the concept called "Stadtrendite" (Schwalbach et al., 2006).

With regard to the theory of externalities, the publicly provided utilities of co-operative housing mainly turn out as follows: Initially, housing co-operatives cause positive externalities by

continuously investing in refurbishments which structurally and optically enhance the value of their quarters (Lenk et al., 2010, 26). These externalities are primarily of psychological nature, whereas originally – specifically in the 19th century – the co-operative's relatively good hygienic and building quality standards provided important positive technological externalities as well (e.g. improvement of the quarter's health situation, reduction of fire hazards). Today, significant positive technological externalities of co-operative housing can be seen in distinctive environmental protection standards (e.g. solar energy, block heating stations, passive houses). In addition co-op-induced measures of district development – e.g. provision of local food supply, child care, and intercultural integration – provide benefits to all the quarter residents (Beuerle, 2011, 276 f.). But housing co-operatives do not only create positive externalities – they can help to prevent negative externalities as well. For example, by supplying inexpensive housing space for their members, the risk of segregation in the housing market can be reduced (Lenk et al., 2010, 25). At the same time a valuable, positive pecuniary externality is caused: The co-operative's reasonably priced fees force other suppliers to adapt, so the market price is generally reduced (Jäger, 1994, 213). This positive externality of improving competition in the local housing market was particularly important during the age of industrialization, where in the rapidly growing metropolises newly set up co-operatives blew up captive markets (Jäger, 1981, 10). Finally, positive pecuniary externalities are also caused in the labor market by the co-operative's own demand for labor and the district development-induced strengthening of the local economy (Beuerle, 2011, 277).

As we can see, housing co-operatives do not only cause positive externalities for their neighborhood and the community, they also help to avoid negative externalities of the local housing market. This finding raises an interesting question: Why are housing co-operatives so closely connected to externalities? The answer lies within the co-operative's organizational structure (for an overview see Grosskopf, Münkner and Ringle,

2009; in the following, for simplification, co-op specific agency problems and national varieties of the ICA co-operative principles are not regarded). Firstly, the creation of Member Value is basically not suitable for short-term profit maximization but rather an intergenerational contract. According to Draheim (1971), the co-operative management should maximize the utilities of the members but, at the same time, assure a long-term preservation of the co-operative firm's value and competitiveness. This implies a certain intergenerational transfer of welfare, simplifying access to housing for younger generations. In this context, the co-operative principle of an "open membership" (ICA, 2013) can also be interpreted as being open to next-generation members, who should be able to profit from the co-op's benefits in the future as well.

Therefore, the co-operative management commonly pursues an intergenerational perspective and, according to that, a sustainable occupation and development of the housing stock, which implies the positive externalities mentioned. This effect is definitely strengthened by the local focus a co-operative usually has: A housing co-operative is grounded fundamentally on its local housing market, its community, its people and its region (Mändle, 2005, 34). And there is another important point: The 1995 co-operative principles by the ICA explicitly mention the "concern for community" as one of the guiding ideas of co-operative identity worldwide. This co-op principle means, that – while focusing on their member's benefits – co-operatives "work for the sustainable development of their communities through policies approved by their members" (ICA, 2013). This is even further developed in the concept of a "Co-operative Citizenship" (Beuerle, 2011, 273). So the co-op's microeconomic striving for Member Value simultaneously induces further-reaching social impacts (Theurl, 2013, 93).

Obviously, housing co-operatives are closely connected to externalities due to their exceptional governance structure. This finally raises another question: What does this finding mean for housing policy? First of all, we should notice,

that, if the housing market itself was able to allocate the externalities properly, no further governmental measures would be required. According to Coase (1960), the housing market, in fact, could produce Pareto improvement in cases where only a few protagonists closely negotiate bilaterally (e.g. when a person, being allergic to hazel-nuts pays his neighbor compensation for uprooting the hazel-nut bush located on his property). But regarding co-operative housing externalities, this solution unfortunately seems to be impracticable due to the prohibitively high transaction costs of the numerous protagonists involved. So – according to Pigou (1932) – governmental intervention, in this case in terms of subsidies could be considered (e.g. tax privileges or grants for the co-operative firm, transfer payments or benefits for the co-op's members). Such subsidies could also be justified by the merit good-character that co-operative housing apparently has. It is remarkable, that the terms used to describe the social benefits of co-operative housing – like "Public Value", "Sozialrendite" or "Stadtrendite" – de facto suggest a merit good-character (although these terms can not directly be equalized to "positive externalities", which, as we have seen, are primarily defined by their *collateral nature*). Unfortunately, the concept of merit goods, evolved by Musgrave (1959), seems problematic due to the improvable assumption of "under-consuming" the merit good and the obvious danger of violating the consumer's sovereignty (Hesse, 1984, 58).

On the other hand, a Pigouvian subsidy of housing co-operatives could theoretically be possible, but it raises serious problems in practical application. A well-known problem refers to measurement in practice: As Mayer (1998, 93) points out, a quantification of externalities in the housing market is nearly impossible, because the true correlations of causes and effects are still not defined clearly. Another problem applies specifically to co-operatives: To allocate the required subsidy correctly, a definite, axiomatic separation of private and social benefits is needed. For a "standard" neoclassical protagonist maximizing his utility- or profit function this

separation should be no problem – given an acting homo oeconomicus who exclusively regards his private benefits and completely disregards the social benefits connected. But if we recognize, that the co-operative's objective function – at least to a certain extent – *consciously internalizes social benefits as "private"* (e.g. "concern for community"), *a sensible separation of private and social benefits seems to be impossible* (please note that according to the definition of Kruse et al. an externality only occurs collaterally). Therefore, in the case of housing co-operatives, the practical application of Pigouvian subsidies appears problematic, not only due to reasons of pure measurement, but also methodologically. It appears that *the traditional neoclassical theory of externalities is obviously not suitable to regard the complexity of a co-operative*. Nonetheless, the question of subsidies for housing co-operatives needs to be answered within a wider context of housing policy which should also include co-operative specific aspects (e.g. consequences of subsidies for the co-op's autonomy or identity).

Yet, apart from subsidies, another quite unspectacular and simple, but well justifiable way could be taken: The *improvement of publicly available information* regarding housing co-operatives. According to current studies, lack of information regarding co-operatives, particularly with respect to individual industries, can be found in public, despite the fact, that people generally seem to have a positive attitude towards co-operative organizations (e.g. Mändle and Hempe, 2006; Theurl, 2012). Thus, regarding the experience good "co-operative housing", a problem of asymmetric information at the expense of the potential consumers might occur. Consequently, an improvement of publicly available information regarding the attractive Member Value that housing co-operatives credibly create, could reinforce the co-op's reputation and attractiveness to new members. Obviously, these measures of "signaling" (Fritsch, 2011, 264 ff.) initially have to be taken by the superior-informed party, which means by the housing co-operatives themselves, or by their respective associations (e.g. in Germany the GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. or the Marketinginitiative der Wohnungsbaugenos-

schaften Deutschland e.V.).

However, the supply of information could additionally be supported by the government, for example by (partly) absorbing emerging information costs (Fritsch, 2011, 278). This measure of official information policy can also be justified by the fact that housing co-operatives produce a public good in helping to overcome negative externalities of the housing market. To illustrate this, let us, for a moment, go back to the dilemma situation of the housing market discussed earlier. As already explained, the player's Nash Equilibrium is not Pareto efficient in a single-period one-shot-game. But if we assume a *repeated game*, completely different equilibriums are allowed. Since the protagonists usually act for an indefinite time, the situation of the housing market, where the return of a homeowner depends on the investments of the other homeowners, can be considered as an *iterated prisoner's dilemma*. As we know from game theory, "co-operation" (C) can in fact be better than "defection" (D) if the game is played infinitive rounds repeatedly, or an indefinite number of rounds (Riechmann, 2010, 146). Repeated non-co-operative games usually use "trigger strategies" where players initially cooperate but defect after observing a certain level of defection by the opponent ("trigger"). Popular examples of trigger strategies are Robert Axelrod's (1984) highly successful "tit-for-tat" or the much more rigorous "Grim". If we assume a multiplayer, infinitely repeated game dilemma situation on a housing market with several "normal" owners usually choosing a trigger strategy and one housing co-operative, it seems probable, that the co-operative in all rounds would choose "co-operation" (invest) to keep its housing stock valuable for its members and the community (e.g. sustainable perspective, concern for community). Therefore, the co-op's governance structure signals a *credible commitment for co-operation* that generally lowers the risks of defection and opportunistic behavior on the housing market. Eekhoff (2006, 61) notes, that on the housing market especially cases of behavioral uncertainty are suited to cause overreactions by the protagonists regarding their willingness to invest. So the co-operative could build a reputation as *pioneering investor* that is, as we

have seen, needed to neutralize negative externalities by preventing a quarter from "filtering down" and pushing a quarter to "filtering up". But this mechanism only operates, when the other protagonists actually know that the co-op will not defect due to their exceptional governance structure and, of course, when they assume, that the other owners – except the co-op – choose trigger strategies punishing free rider-positions with defection.

V. Summary and Conclusions

As we have seen, housing co-operatives do not only cause positive pecuniary, technological and psychological externalities, they also help to avoid negative externalities of the local housing market. This connection to externalities is inherent to the governance structure of co-operatives, which implies a long-term oriented, intergenerational and sustainable development of the housing stock in combination with strong local roots, a disregard of short-term profit maximization and a concern for community. With respect to housing policy it could be shown, that a market-based Coase solution of housing co-operative externalities seems to be impracticable due to the prohibitively high transaction costs of the numerous protagonists involved. So governmental subsidies could be considered. However, a justification of subsidies by the merit good-character of co-operative housing seems problematic because of the evident weaknesses of this conception. A Pigouvian subsidy of housing co-operatives could theoretically be possible, but it raises serious problems in practical application, not only due to reasons of pure measurement but also methodologically. Obviously, the traditional neoclassical theory of externalities is not suitable to regard the complexity of a co-operative. Yet a contribution to further development could possibly be made by game theory. As shown in a multiplayer, infinitely repeated game dilemma situation, housing co-operatives signal a credible commitment for co-operation and could build a reputation as valuable pioneering investor, based on the assumption that the other protagonists actually know about their characteristics. An improvement of publicly available information regarding housing co-operatives therefore is recommended.

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Governing for Habitability: Self-organised communities in England and Italy

Francesco Minora , David Mullins and Patricia A. Jones

Abstract

This paper explores co-operative forms of housing within their institutional context. It considers innovation in governance, relations between community-based housing initiatives and the engagement of local residents in England and Italy. It does not confine itself to legally incorporated “co-operatives” but instead focuses on broadly defined ‘self-organising communities’.

The paper defines self-organising communities as effective and efficient agents of sustainability in co-producing and maintaining goods of general interest. It develops a framework which the author refers to as ‘habitability’ (DIAP 2006, p. 90; Balducci et al., 2011, Minora 2013) drawing on Ostrom’s (1990) theory of the commons and associated work by Ostrom and colleagues on pooled resources (Ostrom, Gardner and Walker 1994) and institutional framework for policy analysis and design (Ostrom and Polsky 1999; Ostrom, 2005). Habitability is considered as a set of rules, social characteristics and conditions through which institutions define rights over resources between users (inhabitants) and as a set of opportunities those inhabitants and their organisations use to achieve them. Habitability is a public good, co-produced at many scales in specific housing situations. Our use of this framework is normative and designed to both assess the existence, or absence of essential conditions for the promotion of habitability as a desirable public good.

Six paired qualitative case studies of self-organised communities from Italy and England were selected to demonstrate different forms of self-organisation, in fields that were incompletely mapped. This could only be achieved by drawing on expert interviews and snowballing within the constraints of the fieldwork period. These cases

were then analysed in relation to the habitability framework. Data was gathered through interviews, visits and observations. In our analysis we pay particular attention to the origins of such self-organised communities and the balance between internal organisation and external drivers such as state policy and funding. We also focus on the action situations; the roles and positions of actors and the resources that they mobilise in their interactions.

The paper draws tentative conclusions about the outcomes of these interactions and the factors that stimulate or suppress the public good of habitability. It concludes with some observations on the value of the conceptual framework provided by habitability; its purchase on self-organised communities in different local contexts in England and Italy, and its relevance to housing provision affordable by those on low incomes. The importance of responsive forms of institutional support often found in the co-operative sector is highlighted as a key success condition.

Keywords

Self-organised communities, commons, habitability

Introduction: self-organising communities and housing

Self-organising communities are not a new phenomenon in housing. Examples can be found all over the world including the cohousing movement, originating in Denmark, spreading to Holland, Germany, USA, Canada, and more recently the UK (id22: Institute for Creative Sustainability: Experimentcity 2012). Other international examples include longstanding formalisation of squatter settlements through sites and services programmes

in developing world cities (Turner, 1976); home owners associations in US (Beito et al., 2002) and gated communities in US and Europe (Atkinson and Flint 2004). Recent self-organised initiatives taking root in England include Community Land Trusts (Swann, 1972; Moore, 2012) and self-help housing, bringing empty homes into use, developing from regularised squatting in the 1970s but now incorporating employment and training and social enterprise goals (Mullins 2010). While in Italy (Minora and Morello, 2011; Citalia, 2010) a range of self-help and self-build initiatives have recently grown (Marcetti et al., 2012), as well as some co-housing experiments which are spreading all over the country (Lietaert, 2007). Meanwhile the Italian housing co-operative movement is rethinking itself and its role in neighbourhood regeneration projects (Zanoni e Pirani, 2008). Thus, this paper explores some of the ways in which self-organising communities have become engaged in solving housing problems and their interaction with public policies.

Self-organising communities are defined as groups of inhabitants sharing interests, living in specific localities, developing a set of rules and an organisational structure to own, develop, or manage housing assets for the common good. The balance between self-organisation and external support ('help from within and help from without') (Archer, 2009) varies considerably between examples. The widely studied phenomenon of gated communities (Atkinson and Flint, 2004) forms one extreme of middle and higher income self-organisation, while state-supported forms such as English tenant management organisations (TMOs) enable low income tenants to manage rented housing (Cairncross, 2002). Recent work has highlighted the importance of facilitation structures to support self-organisation and the need to balance technical support and local control (Moore and Mullins, 2013). For the purposes of this paper the concept of 'self-organising communities' is narrowed to exclude other models (gated communities, Common Interest Development) in order to focus on those forms that are closest to co-operative housing in terms of aims, residents and management structures.

Our understanding of the relationship between self-organising communities and public policies is enhanced by our choice of case study sites in England and Italy. In England there is seemingly a 'policy for everything' with recent debate on the role of local communities in shaping their own future (localism and the 'big society') being institutionalised in new and emergent forms such as community land trusts, neighbourhood planning and self-help housing overlaying more long-standing, mutual forms such as co-operatives and tenant management organisations. Therefore English researchers tend to focus on policies and programmes.

In contrast this debate is less widely developed and institutionalised in Italy. Housing is governed at the regional level and few public institutions promote housing policies favouring an activation of communities. The recent, national law for the promotion of very local funds for social housing is not spreading as fast as might be expected. Most of the new social housing actors such as housing foundations, agencies of venture capital, housing co-operatives (renamed "inhabitants' co-operatives"), do not assume local communities can be effective and active agents for promoting housing policies. Italian research is therefore more focused on individual and local initiatives and experiments.

From within these distinct contexts this paper considers emerging evidence on the governance, outcomes, sustainability and wider contribution to social cohesion of self-organising communities managing housing assets. To enable this analysis we present a new framework of 'habitability' developed from the theory of the commons. We then present six case studies of self-organisation from Italy and England analysed in relation to habitability and present some conclusions relating to both framework and cases.

Habitability informed by the theory of the commons

The theory of the commons, originated by Ostrom and developed by several authors since the early 90s (Ostrom, 1990; Stevenson, 1991; Bromley, 1989, 1991), shows that in certain situations self-organised communities can produce a set of rules

able to achieve the productive and efficient management of pooled resources. Self-organised communities can be considered agents of socio-environmental sustainability and in some cases are more effective resource managers than either state or market, contradicting earlier accepted ideas based on Hardin's (1968) influential article on the "tragedy of the commons".

Many examples from around the world support Ostrom's work, confirming this theory, developed with particular reference to the management of natural resources by small communities in subsistence economy. A few authors (Webster, 2003) have applied the theory of the commons to urban development and to the United States homeowners associations' phenomenon arguing that these forms of self-government can replace public institutions (Foldvary, 1994; Nelson, 2002, 2005; Beito et al., 2002).

This theory shows how self-governed communities can prevent free-riding. In an urban context free-riders are those who own a property and earn the land rent produced by the improvement and enhancement of value through the creation of services and infrastructures without paying anything. Most public assets in an urban context can be considered to be common pool resources: stairs, pavements, roads, traffic management etc. Without frameworks for common provision, or public regulation there is a danger that free-riding will reduce motivations to produce and maintain these essential resources.

This dynamic can be observed when looking at the behaviour of the inhabitants of a small condominium: building regulations may be insufficient to produce the desired results because the residents might respect it but not realise the benefit in collaborating with each other. The potential of regulation is not often understood. At best they produce conditions of peace and quiet but they do not build cohesive communities capable of facing stressful situations and socio-economic transformations in the neighbourhood. In addition, neighbourhoods need robust institutions of governance and management to achieve this.

Following the theory of the commons, self-organised communities can be considered as agents for more effective governance of neighbourhoods,

monitoring, sanctioning and controlling behaviours. Here we argue these organisations can be used to produce habitability, as it will be defined below, in situations of deprivation, as well as among middle and higher income communities.

The Institutional Analysis and Development (IAD) framework (Ostrom, 2005, Ostrom and Polsky 1999) enables analysis of interaction between the subjects in the action arena, identifying specific action situations in which actors interact with each other, assuming specific conditions, social characters and rules. In the specific case of housing the action arena can be associated to the term territory, which is defined by the 'uses made of it' (Crosta, 2010, p. 7). The concept of habitability has been recently developed in strategic planning by a group of architects and planners from the Polytechnic of Milan (DIAP 2006, p. 90): "habitability is a complex performance property of a territory".

This group of researchers refers to habitability as a "common good" (DIAP, 2006, p. 90), co-produced in many urban dimensions (Balducci et al., 2011, p. 70-71): supporting housing, moving and breathing, sharing spaces, producing and enjoying culture, promoting new local welfare services, strengthening innovation and business. This way of understanding habitability was useful for us in identifying a set of housing situations to be studied in the field: living in the house, sharing spaces between houses, maintaining the building, ruling entrances and flows, managing information between residents, promoting sociability and enhancing the relation between housing and economic activities.

While for this group habitability was used to direct and inspire strategic planning processes and public policies in an urban region, habitability is considered here from a theoretical point of view as the outcome of the localised interactions in specific housing situations, co-produced by actors holding different roles and positions in the arena, on many different levels: the house, the neighbourhood, the city, the region etc. (Minora, 2013).

In this paper, eight elements affecting habitability,

drawn from Ostrom's more general theory of the commons (1990) (see Table 1, left column) have been adapted to define a grid of analysis of self-organised community housing. This adaptation (see Table 1, right column) is based on the assumption that self-organised communities may be agents of habitability in the same way that self-governed institutions described in Ostrom's (1990) may be agents of sustainability.

This adaptation is not automatic. First, those principles have been translated into key elements directing the analysis. The authors did not simply adopt them as a check list for understanding institutional success in governing habitability. Second, they were used to provide an action framework to usefully interpret the experiences presented. Thus they enable analysis that shows how habitability can be produced, rather than measuring the level of habitability. Third, this analysis seeks to include organisational aspects and not just institutional ones as Ostrom's analysis did. Rules are considered both as components setting the action arena, as well as resources used to achieve the goal of producing habitability.

Some authors have already described the advantages of these forms of self-organisation (Curti, 2006), especially qualifying local services without burdening public expenditure, avoiding waste and surplus in the supply of them, giving inhabitants a louder voice as customers, asking for deeper local authorities' (LA's) social and economic reporting and eventually requiring compensation for the most vulnerable people. These are very specific benefits. In this paper we wonder if and how self-organised communities can be used to produce strong institutions for managing transformations in deprived neighbourhoods, promote affordability and empower communities and thus extend benefits of self-organisation to the poorest residents.

Description of the case studies

The case study method (Yin, 1984) used for this research was exploratory. Cases were selected in order to exemplify different forms of self-

organised communities in fields that were incompletely mapped, drawing on expert interviews and snowballing during the constrained fieldwork period available to the lead researcher (approximately three months in England and a similar time in Italy). We defined some similarities to enable comparability between organisations such as; legal framework, localisation, scale, mission, internal structure, decision making process, time scale etc.

Qualitative case studies gathered data through at least ten in-depth face-to-face interviews for each case with users and practitioners (managers, workers, inhabitants etc.) directly or indirectly involved in each leading organisation. Participant observation in the unstructured environment of public and private places was carried out in order to increase data collection.

The six cases share a number of similarities but reflect the institutional pluralism of forms of self-organised community in the two countries. Some characteristics are similar to what the literature calls "contractual communities" (Moroni and Brunetta, 2011, p. 9). In this paper we consider relevant these common features:

- **Territoriality:** communities who occupy physical space and are located in a specific local context.
- **Non-profit:** all the leading organisations are private, non-profit and act in the interests of its members by producing goods and services of general interest.
- **Voluntary membership:** in all cases organisations draw on voluntary support from citizens. In some cases, the people activate themselves (mostly England), in others (Italy) they are driven to take action. In all cases voluntarism is important.
- **Communities by contract:** the relationships between the members of the project are governed by contractual relationships; residents are asked to adhere to formal or informal contracts specifying the rules of living
- **Reciprocity and solidarity:** all the cases strived to develop reciprocity between inhabitants. Solidarity and social inclusion

Table 1:
HABITABILITY FRAMEWORK FOR ANALYSIS OF SELF-ORGANISED HOUSING

Design principles (Ostrom, 1990) for institutional success	Elements affecting habitability
Clearly defined boundaries	<p>1. Accessibility Self organised communities limit the number of members to control the costs associated with the organisation of the group, produce affordable housing solutions for specific targets of population living in specific areas, design devices for controlling barriers and access points, promote environmental regeneration defining a set of architectural features that can make the person feel secure (privacy and familiarity) and promote flexibility to accommodate social inclusion of new members enhancing the provision of a particular type of housing that the market is lacking;</p>
Congruence between appropriation and provision rule and local conditions	<p>2. Congruence Self-organised communities define function of use of housing spaces (with particular reference to the collective ones) congruent to the expectations of inhabitants, consistent with the physical characteristics of the space and potential for exploitation.</p>
Collective choice arrangements	<p>3. Participation Self-organising communities provide mechanisms for residents' participation in decision making, especially dealing with the definition of the rules of exploitation of housing spaces and services. Communities can reduce these costs by establishing a series of organisational moments of confrontation in which the people get to know each other so they can formulate the kind of community they want to build.</p>
Monitoring and graduated sanctions	<p>4. Control These initiatives are intended to play a direct role for the inhabitants themselves in monitoring and controlling activities, defining progressive intensity and creating credible sanctions against those who do not respect the rules of collective use of space.</p>
Conflict resolution mechanism	<p>5. Social relations management Social relations management provides tools and services for resolution and conflict prevention, promotes opportunities for meeting and socialising between people, encourages behaviour that is designed for the care and maintenance of common areas, supervises and promotes the establishment of channels of information and communication. These initiatives lever both the neighbourhood and the proximity as a means to activate co-operation between inhabitants and foster reciprocity, thus meeting the needs of disadvantaged people for social inclusion.</p>
Minimal recognition of rights to organise	<p>6. Institutional legitimisation Over-ordered institutions provide for a minimal recognition of self-organisation. Communities can manage issues related to building design and urban planning, granting adequate housing standards defined by the rules above, through self-financing without burdening the State.</p>
Nested enterprises	<p>7. Integrated management (level 1: inside the organisation) Self organised communities try to integrate all the previous aspects through the creation of organisational functions, or the provision of ad hoc housing services devised for that purpose.</p>
Nested enterprises	<p>8. Improvement and infrastructure production (level 2: outside the organisation) These initiatives complement the infrastructure of the neighbourhood and the city in which they are developed: They produce mechanisms for controlling, managing and governing the land rent in a social, economical and environmental way. The formula of land management used by self-organised community implies the land is held in a collective and undivided way by the group of people that manages it through a non-profit strategy for the benefit of those members of the community.</p>

Source: The Authors: Based on Ostrom (1990, 2005), Ostrom and Polsky (1999); DIAP (2006), Balducci et. al. (2011), Minora (2013)

may follow, but it is not directly promoted by these initiatives

- **Enhancement:** all the projects want to upgrade and enhance a particular context characterised by deprivation, abandonment, marginalization, underuse or lack of affordable housing.

Differences reflect the contrasting origins and purposes of the cases including legislative and programme origins in the three English cases. The cases have been paired on the basis of similar, general, driving purposes and logic to enhance the value of comparisons between the two countries.

PAIR 1: Community Land Trust in England and Co-housing Co-operative in Italy

These are inspired by the logic of "housing ourselves". They are meant to produce housing for specific communities of people with middle income: in the first case it is developed by some residents of a rural area who take the initiative to house young couples and single people who could otherwise not afford local house prices and would be forced to leave the area. Inhabitants were asked to self-build their homes in order to save money; long term affordability was further enhanced by taking out land value from housing prices and maintaining this arrangement for subsequent resale. In the second case, a group of residents decided to build affordable homes for themselves, in a small town, in a suburban area improving their housing conditions, building common spaces and services (co-housing) and using wood and other green economy solutions to save on maintenance.

PAIR 2: The Tenant Management Organisation (TMO) in England and a set of housing services in a block of flats collectively owned by a co-operative in Italy

The Italian case is located in a suburban area of large municipality and led by a group of expert consultants. The inhabitants rent the houses in which they live. The initiatives have been set up to produce housing services that will improve the living conditions of the inhabitants. In particular, the aim of the former is in facilities management (cleaning, minor maintenance, information etc.), the aim of the second is to enable inhabitants to

produce social services (time bank, Italian language courses for immigrants, kindergarten, cycle repairing etc.)

PAIR 3: The Community Housing Association (CHA) in England and the Social Housing Co-operative in Italy

Both cases are key actors of complex regeneration projects, led by LA's. While in the first case the CHA was initiated by local residents, in the second, the co-operative originated from another municipality and wants to activate local residents in managing their estates. They intend to redevelop urban areas, characterised by the presence of unfit public housing that needs to be demolished and rebuilt. Most of the people living in these buildings are elderly. These initiatives aimed to introduce a broader social mix into the area and produced local services and infrastructure. Table 2 synthesises the key aspects of each case.

Case Study analysis

Accessibility

The first aspect that affects the production of habitability is represented by the degree of accessibility as described above. Dealing with affordability and selection criteria, the experiences of CLT and Co-housing co-operative aimed to provide incentive for homeownership for people with medium income, in high house price areas: they promote access to housing for specific targets through affordable price. These two projects are for people who have a job and can afford a mortgage. If someone cannot pay for his home anymore, he will be replaced and in both cases the organisation will have precedence to buy back to recycle to other qualifying groups.

Organisations define the criteria for eligibility according to their mission (CLT admits only longstanding, local residents, co-housing co-operatives select people according to the idea of sharing spaces, facilities and services) in relation to the help they receive from the LA in reducing the cost of the initiative. The price for reselling the homes is determined by covenants in agreement with the LA. In one specific phase, CLT was asked to accept renters from the public housing list for

Table 2:
6 CASE STUDIES' MAIN FEATURES

Housing strategy	Housing ourselves		Providing housing services		Local and integrated approach	
Type of initiative	Community Land Trust (England)	Co-housing co-op. (Italy)	Tenant Management Organisation (England)	Project for a block of a housing co-op (Italy)	CHA Community Housing Association (England)	Social Housing co-op. (Italy)
Main activities	Self-building for homeownership; resale covenants	Homeownership with common spaces and facilities; resale covenants	Activation for facility management services	Activation for social and proximity services	Regeneration of a neighbourhood rebuilding public homes; offering homes for sale	Regeneration of a neighbourhood rebuilding public homes; homes for sale not an option
Target	Medium income with some social renting	Medium income	Mainly social housing renters	Low income renters	Social and low income renters, open market freehold	Social and low income renters
No. of dwellings realised/involved and tenure	24 12+8 trust freehold with covenant 4 HA rented	12 Housing co-op. freehold with covenant	272 158 LA council properties 46 council leaseholders 68 freehold properties	325 housing co-op. rented	610 300 freehold 167 CHA rented 83 HAs rented 60 LA rented	75 55 LA social housing rent 20 co-op. moderate rent
Funding	£2 million costs; £5.000+£544.000 public free interest loan + Mortgages; Chair sold land at a lower price and was paid later	3 million € costs Mortgages + land building right from LA at a discount price	Annual costs unknown; £10.000 from LA for starting; LA pays or services delivered	100.000€ costs Private funds from housing co-op.	Public to start + some private funds	Over 10 million € Mainly public from Region and LA; Housing co-op. co-invested
Time	Phase 1: 2005 - 2007: planning permission; 2008 15 months to build; Phase 2: 2009-2010 to get planning permission; 2010-2011 to build	2008-2011: constitution of the group and planning permission; 2011-today: to build	2004-2008: to set up the Community Interest Company; 2008-2010: final assessment and vote; 2010-today: on work	2008-2010: interviews, selection, brainstorming, activation, conclusion	1989-1994: set up of association 1995-2006: asset land transfer 2007-today: self development	2007-2009: plan development 2009-2012: site development 2012-today: waiting to move to new homes
Board composition	7 trustees, two of which are inhabitants admitted after the building process	20 adults inhabitants;	From 7 to 15 people the majority inhabitants	From 3 to 9 inhabitants of the block	12 members: 7 inhabitants, 3 external experts, 2 from LA	Board is composed of experts
Criteria of selection of inhabitants	Local people able to pay a mortgage; mainly defined by the Trust	People able to pay a mortgage; mainly defined by the co-op.	Being residents; neighbourhood boundary has been agreed with LA	Being residents; Block defined by the co-op. and a group of expert, agreed with block board	Income, social condition etc.; defined by association and agreed with LA	Income, social condition etc.; partly residents; defined by association and agreed with LA
Level of participation of inhabitants	Building (directly); Property management; Facility management	Design; Property management; Facility management; Social management	Facility management; Social management (partly)	Social management	Planning process; Design; Building; Facility management; Social management	Design (partly) Property management (only for co-op. renters) Facility management; Social management

Source: The Authors: Fieldwork Summer and Autumn 2012

new properties built as part of the scheme by a Housing Association; thus broadening the income mix beyond that of the CLT's main target group.

Conversely, CHA and Social Housing Co-operative cases evidence community organisations engaged in projects aimed at expanding the social mix from an existing low income social renting community. In the case of CHA rents are very competitive and low, but these were achieved through cross-subsidy from selling of private homes on the market and from land gifted from the LA. In the Italian co-op case, 20 homes were available for moderate rents. Those prices are defined by law and the biggest part of the project is financed by the Regional Authority. It was a challenging decision to assign ten homes to the co-operative's members who were not on the local public housing list, but qualified in terms of limited income.

A different way of achieving affordability is to realise savings on maintenance costs and on building process: according to interviewees, self-building a home saved up to 30% of general building costs, while building homes with high environmental standard as in the Co-housing Co-operative can help save on heating costs. The more people are keen to take responsibility for their own housing costs, the more they will try to save money. In the CLT case it was decided not to build to the highest environmental standards because more expensive materials were considered unaffordable.

The TMO achieved savings through prompt intervention: a repair of a water pipe in the wall costs less if it was done promptly. Although the housing co-operative block in Italy had no direct intention of reducing housing costs, it can be observed that building more sense of place through proximity and reciprocity (time bank, and Italian course for immigrants, a garden etc.) saved money by promoting integration, thus preventing social conflicts.

Accessibility could also be defined as the ability to produce different design options. The only case that produced a very different design is the

cohousing one in Italy, where inhabitants really had the opportunity to design the entire home. In the self-building scheme the promoters did not accept the Local Authority's view that building terraced homes would have stigmatised the area. The case of CHA is a very interesting one because all the homes were rebuilt as close to the original design as possible. Because the mission was to avoid abandoning the neighbourhood, it was important to keep the landscape as it was. Some bungalows were added to regular homes, for the elderly or refugees, in order to improve proximity relations. The Social Housing Co-operative required their apartments for low income people to be located in a different tower block from the social housing estate.

None of these initiatives produced gated communities, controlled by cameras or similar, even in the CLT and in Co-housing initiatives. In the CLT four apartments were built by a housing association, while in the co-housing case it was agreed that Local Authority co-developers would enhance the neighbourhood by renovating the public park and realising cultural initiatives for the social renters' neighbours.

The TMO and the project for the co-operative block did not produce new designs, but helped in making the place where people lived more familiar. Thanks to the efficient use of local knowledge many social initiatives were realised. The first project was able to stop vandalism, while in the second case new places were created including a garage to fix bicycles. However, the TMO was not always successful in accommodating new members as well as in the second case we were made aware of a less successful project involving a common room for residents' meetings.

Congruency

The level of congruency between inhabitants' expectations and what the projects proposed can be better analysed by looking at outcomes. For example, in the CLT study, while self-builders had the opportunity to create a strong community, this was not the case for the 4 bungalows built in phase 2 for social renters and managed by a housing association. They were not involved in the process

of self-building and after some years there was some social friction with self-builders related to common space such as the use of front garden by children, the garbage on the street etc.

Generally, in all cases congruency is directly related to social mix. In the co-housing initiative there was more opportunity to customise than in other initiatives, but the price was fixed in the contract with the LA and the group had to promise in the contract to work for the social rented neighbours. Notably the English experiences were characterised by a firmer intention to mix tenure and income of the residents. This is true for CLT and CHA, while in TMO the inhabitants involved are from different tenures. In the Italian cases the housing initiatives tend to be more segregated by tenure and income and to designate separate buildings; this is true for Co-housing Co-op. and Social Housing Co-op, which decided to allocate its own tower block for moderate income renters. While the case of the social project for the housing co-op. block allocation was only available for residents in those specific buildings.

Institutional legitimisation and participation

The LA's involvement is a key element affecting not only congruence, but it also enables institutional legitimisation, the level of participation of inhabitants directly affecting their ability to influence as outlined below and, in general, the system of governance. There's a clear link between these elements.

Generally, organisations had to negotiate some crucial aspects of the project with local public bodies. Only in the CLT case there was no initial, local government support, but even here the LA eventually became the biggest supporter of the initiative.

In CHA the LA was represented on the Board, mainly composed of "expert" residents. CHA is always proposing new services and infrastructures to residents. Inhabitants' participation focused on the development of the neighbourhood. In the case of TMO inhabitants have to become expert in managing and people are participating in response to demand for services.

The case of co-housing is the only one where inhabitants meet together weekly to discuss the housing project; and do not delegate on any matters concerning the housing project. Elsewhere there is more delegation to managers and experts; for example the Social Housing Co-op which is governed as a special enterprise partnership involved the LA and expert organisations and excluded residents. In this case the only option residents have to influence the process is to ask the Social Housing Co-op. to negotiate for them. One discussion about fences was emblematic: the mayor, a professor of criminology, decided the new buildings should not have fences. Inhabitants were concerned about this, because there's a general feeling of insecurity in the neighbourhood, but the co-operative mediated for them and convinced them, after a long discussion with the mayor, to accept the mayor's advice.

Control

A common element in all the projects is informal control over common spaces: this is clear in the case of CLT, where the project didn't want to build fences on the front gardens and in the case of TMO, where staff collected information about what's going on in the neighbourhood. This led to the removal of homeless people from abandoned garages, which are not subject to maintenance in the contract. CHA is used to meeting residents and listen to them in order to understand if there are some problems they don't want to tell to the police, but that are really important to be communicated about daily life.

Similar informal arrangements for controlling the neighbourhood are used in all the projects. This element is crucial if the organisation doesn't have the economic potential or the legal right to bring people to court if they break the commons rules. Preventing unfair behaviour is the cheapest way of granting secure conditions. Except in the case of CHA, none of the other organisations have the ability to pay for lawyers if someone is breaking the rules, and the inhabitants have to fund it themselves. Because of the modest means of many of the people living in social housing estates this option is not available, hence the importance of informal control.

Social relations

One element supporting informal control and the prevention of social conflict is the opportunity created in all cases for people to get to know each other before moving in. All the organisations work on reciprocity, especially in the case of CLT and Co-housing. These are community organisations based on common interests, even if in the first instance inhabitants were selected by a team of promoters, while in the second one they chose each other as group of friends with environmental interests. In the case of TMO and in the housing co-operative block the social relations between residents are based on information circulation: everyone has to be informed about what's going on in the area. Similar services like a "social caretaker" will be provided to residents in the case of the Social Housing co-op.

CHA is probably the only organisation that differs: it has a specific focus in changing the way in which people interact in the area: it proposed and developed public places and recently promoted discussion about the Ring, a space that acts as a "village green" in the neighbourhood. Here some of the local leaders try to involve people in designing and proposing changes to promote local wellbeing. Habitability is strictly related to the way in which social inclusion is considered in the housing initiatives. The CHA was the only case in which the organisation integrated the function of being a housing provider with the role of social inclusion player.

Integrated management

Unusually, CHA decided not to manage the property it owns, it delegates property management to the LA but keeps facilities management itself. The more the group of residents is leading the initiative, the more all the functions will be concentrated in their hands. This is particularly evident by the contrast in Co-housing co-op. and TMO.

While the Social Housing Co-op offers an alternative model to integrating functions: the social activity here tries to make residents autonomous in facilities and property management after three years of the project. Moreover a

common code of behaviours, defined by residents is about to be approved.

Infrastructure

The cases of CLT and CHA show the power of these initiatives in limiting the land rent phenomenon and in managing it in favour of local people. In the first case this was achieved through philanthropic action by the local landowner who was Chair of the Trust, and accepted below market value, with delayed payment, which he then used to lend money to the Trust.

The Social Housing Co-operative project is connected to many other initiatives of regeneration in the area regarding gardens, schools, young families, local economy revitalisation etc. and is thereby able to multiply local impact.

Conclusion

The paper deliberately selects case studies with diverse institutional settings, origins and housing contexts, all of which incorporate elements of self-organisation. Three main types are considered: 'housing ourselves', tenant management of services and integrated neighborhood regeneration. The value of the habitability framework introduced in this paper is in providing a consistent and theoretically informed language to describe diverse organisational forms and actions that contribute to the desirable common good of habitability. This framework treats self-organising communities not as housing providers, but as organisations with systems of rules and structure with potential to generate the public good of habitability. According to this approach it is reasonable to say that if some organisations are not able to address all the elements described, it will be harder for them to produce habitability that will endure.

The framework demonstrates the range of specific conditions and actions that are required to generate habitability. Of particular importance are public support, finance, legitimacy and participation. This confirms both the importance of facilitation by external bodies such as local government as well as the dangers of such facilitation in changing the aims of the self-organisers, for

example through technical requirements.

Thinking about the factors that support or suppress habitability, the case studies illustrate the ways in which self-organisation can produce habitability without excessive top down planning. The typical case is that of the low amount of resources used for control and sanction. Reliance only on public intervention (such as the Police and the Courts) is sometimes not enough.

A second argument relates to the way habitability is produced: can we argue that the higher the degree of autonomy of the organisations controlling the eight elements, the greater will be habitability? Undoubtedly, it will create an environment which matches up to the expectations and preferences of the residents. However, our analytical approach clearly shows the co-productive nature of habitability. It will always be the result of interaction with other external actors and with their interests.

Habitability is then the outcome of the balance of these forces and it's strictly related to the aim of the housing project. Initiatives described here show that the participation of the people can go far beyond mere involvement in the collection of information, or in advisory meetings. The intervention of external actors, if in opposition to the purpose of the initiative, can produce conflicts in the mechanisms of producing habitability and this will require communities to fulfill the functions for which they were not designed for. Unfortunately it is difficult to assess outcomes in relation to longer term goals compared to shorter term, rationally planned interventions, as self-organised initiatives succeed through adaptive change over the medium term.

Whilst useful in the above respects, the framework of analysis was not able to fully account for the importance of individuals, leadership and relationships that played an important role in the success, or otherwise of the case studies (such as the role played by the Chair and philanthropic landowner in the CLT case). However, some initiatives were able to continue to succeed even when former leaders left, indicating

the importance of institutional embeddedness as well as individual factors. It could also be argued that while the framework has highlighted the importance of each of the eight elements it has not provided evidence to support the contention that all of these conditions are essential rather than desirable for long-term habitability to be achieved.

The value of comparing Italian and English cases was found in highlighting the types of institutional options and support available. On the surface it appeared that English communities had more opportunity to choose between legal forms (trusts, housing association, charity, community interest company, co-operative etc.) while Italian communities had just one option, the co-operative form. Moreover there were more examples of external stimulus for English community-led housing through numerous recent policies, programmes and funding streams (albeit relatively small scale, and sometimes tending to frustrate local initiative through pressures for conformance). Meanwhile in Italy there was little state support for innovation or replication and direct action was mainly realised through self-organisation and risk taking.

However, despite these important differences it remained very difficult in both countries for a group of low income people to bring about a self-organized housing scheme. This is an important conclusion if self-organisation is not to be limited to middle and higher income groups, for example in gated communities or self-build and mortgage schemes. Barriers include the scale of investment required and the level of expertise, time and knowledge that needs to be developed. This means that regardless of the legal forms and policy framework, it is unlikely that self-organisation will succeed without effective secondary institutions to coordinate resources and expertise and reduce costs. As Moore and Mullins (2013 p. 26) concluded in reviewing the growth of community land trusts and self-help housing in England community-led housing, the initiatives face *'common dilemmas of harnessing external resources, while maintaining the local scale and accountability that provides the unique added value of the community-based housing sector'*.

Sadly, not all the self-organised initiatives described here were able to access this level of governance and responsive support.

Notes

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Bringing Residents to the Table: the Feasibility of Co-operative Governance in Rural Low Income Housing in the USA

Terry Lewis, Christina A. Clamp, Eric L. Jacobs

Abstract

This paper examines the feasibility of the conversion of certain low-income rental properties to co-operative housing in rural communities of the United States. The US Department of Agriculture §515 rural rental housing program provides 1% interest, 50-year amortization mortgages to finance privately-owned, affordable, multifamily rental properties. Program resources are strained. Additionally, §515 program guidelines do not foster resident involvement in the management of the property. Program regulations leave little or no ability to support resident initiated programs and no ability, or requirement, for residents to participate in management tasks. This fosters a traditional landlord/tenant relationship where residents are highly reliant on the property owner to provide housing.

We compare models of resident participatory governance against the existing, traditional, landlord/tenant scheme. The study examines the benefits and challenges to converting §515 developments to resident participatory management models including Limited Equity Co-operatives and Mutual Housing Associations. Field research was conducted among practitioners, policy analysts and §515 residents. This research study concluded that a national portfolio conversion and revitalization program would create stronger, more sustainable, rural communities. Additionally, field research supported the need for national and regional networks to support the creation of resident-controlled, permanently affordable housing.

Key Words

Co-operative housing; mutual housing associations; resident-controlled housing; affordable housing; rural rental housing

Introduction

This research was contracted by the US Department of Agriculture's Rural Development program to assess the feasibility of converting existing multi-family rural housing to resident participatory management, including co-operative ownership, and using resources of federal government programs. Any conversion program, to be deemed feasible according to the USDA, would have to meet the following criteria:

Be economically self-sustaining, both as to the entity or entities bringing about the co-operative conversions and the resulting co-operatives; and

Add value in some fashion to its funder, the United States Department of Agriculture (USDA), the residents of the housing to be converted, and the co-operative sector generally.

The USDA housing loan portfolio has an estimated 15,899 properties with 434,296 units (ICF Consulting Team, 2004). The average property in the portfolio is over 30 years old. The adjusted mean income of residents in this housing as of 2004 was \$9,075 and the tenant base was 58% elderly, handicapped and disabled (ICF Consulting Team, 2004). Little has changed since then (Reynolds B., 2011). Properties in the USDA portfolio are consistent with other studies on rural housing (Wright Morton, Lundy Allen, & Li, 2004) (Ziebarth, Prochaska-Cue

& Shrewsbury, 1997).

The paper describes the research and conclusions of a USDA contracted study examining incorporating resident governance as part of a strategy for conversion of low-income rental properties to co-operative housing in rural communities of the United States. The federal Department of Agriculture §515 rural rental housing program provides 1% interest, 50-year amortization mortgages to finance privately-owned, affordable, multifamily rental properties. This program serves very low income populations. Program resources are strained. A dialogue has ensued to consider restructuring housing policy and provision of multi-family housing in rural communities. We were asked by the US Department of Agriculture to identify possible strategies for recapitalizing the portfolio and whether changes to the ownership structure could facilitate more effective asset management. Our research questions were:

1. How could the §515 housing be recapitalized while insuring long term affordability of the housing?
2. What ownership structure would be best suited to enhance the quality of the housing while insuring affordability?

Economic sustainability invokes concepts of affordability and of scale. Affordability to families whose incomes are at or below 80% of area median incomes (“AMI”) is a statutory hallmark of rural subsidized housing programs in the United States. Exurban renters are cost burdened for their housing.

“In 2010, 1.7 million paid more than 30 percent of income for housing while nearly 1.0 million paid more than 50 percent. While the trend in US rental housing has been a rebound in rents, incomes have not seen a comparable increase.” (Joint Center for Housing Studies at Harvard University, 2012).

Limited equity co-operatives (LECs) restrict the growth of the asset value of the housing but provide members transferable rights. Mutual housing associations (MHAs) have existed in the United States since 1980. They differ from co-operatives since there are not transferable rights to the housing unit.

Residents have control of the housing through the tenant council and rights to remain in their housing as members in the MHA. MHAs are typically non-profit housing associations (Taylor, 1997).

The paper compares LECs and MHAs to the existing, traditional, landlord/tenant scheme and examines the benefits and challenges to converting §515 developments to resident participatory management. Field research was conducted among practitioners, policy analysts and §515 residents. The study concludes that conversion of developments to allow resident participation would create stronger, more sustainable, rural communities. An added benefit would be revitalization of the properties converted. Additionally, field research found the need for national and regional networks to support the creation of resident-controlled, permanently affordable housing.

The Rural Housing Problem

USDA program resources strain to meet rural America’s affordable housing needs (ICF Consulting Team, 2004; Housing Assistance Council, 2012). To add value to USDA, a conversion program must bring in outside resources and/or increase the efficient use of existing USDA resources. To add value to housing to be converted, the conversion program should: increase housing affordability; add amenities to that housing; provide economic value to residents through a realizable equity stake; and/or enhance residents’ lives by increasing their control over their housing and/or their housing communities. (ICF Consulting Team, 2004; Housing Assistance Council, 2012) To add value to the co-operative community generally, a conversion program must enhance the profile of co-operative housing in rural America and within the affordable housing and public policy communities. It must also increase the resources of the co-operative community by increasing its capacity to create and sustain co-operative housing (ICF Consulting Team, 2004; Housing Assistance Council, 2012)

Co-operatives and US Rural Multi-Family Housing

Co-operatives represent less than 1% of the multi-family housing in the US. (University Center for Cooperatives, University of Wisconsin, 2009). The US government has provided funding for LECs as one of

the non-profit development options for affordable housing. Co-operative development/conversion entities require a certain income stream over and above the cost of each development/conversion project in order to pay for their continuing operations. Each development/conversion project involves a substantial cost in terms of staff time on the part of the development/conversion entity and the various elements necessary to finance and undertake the acquisition and rehabilitation of the property to be converted. Below a substantial minimum, these costs are not scalable. Ultimately, these costs must be paid as part of each development/conversion project (hereafter “project”). Imposing even the most minimum of development costs on too small a project will make the housing unaffordable to the target population. Furthermore, the developer must have access to a steady stream of development projects or go out of existence. In sum, economic sustainability requires that a conversion program operate at scale.

Traditional USDA affordable housing does not foster resident involvement in the management of the property. Program regulations leave little or no ability to support resident initiated programs and no ability, or requirement, for residents to participate in management tasks. This has led to a landlord/tenant relationship where residents are highly reliant on the property owner to provide housing – placing them in extreme jeopardy if the owner decides to leave the program and/or no longer accept rural rental subsidies.

“In recent years, rural affordable housing programs continue to shift away from direct lending in favor of loan guarantees. In addition to declining monetary investment the presence and delivery mechanisms for rural assistance are also diminishing.” (Housing Assistance Council, 2012)

This is a widespread problem for non-profit housing organizations (Rohe, Quercia, & Levy, 2001). Since the mission of non-profit developers is to create long term safe affordable housing, they are less likely to convert the housing to market rate rentals or to sell the property at the end of 15 years when the restrictions expire related to the public financing of the housing (Logan, 2012). In order to recapitalize the properties, they must seek new public or tax credit financing to

fund capital improvements (Housing Assistance Council, 2012; ICF Consulting Team, 2004).

Studies of co-operative housing (Sazama, 2000) (Saegart & Benitez, 2005) (Cooper & Rodman, 1992) (Sazama, 2000) find it to be an effective way to create safer, more efficient and more satisfying resident experiences. Saegart and Benitez specifically studied LECs and concluded that LECs could improve the quality of life while providing residents with a democratic governance of their housing. LECs can and do provide opportunities for lowered costs through self-help and democratic governance.

“LECs can provide a less costly, high-quality housing alternative to home ownership, especially for the populations least likely to become home owners. LECs promote residential stability and increase resident control of housing.” (Saegart & Benitez, 2005)

Sazama and Wilcox found that co-operatives engage in more careful and better quality planning that emphasizes the residents. This involvement contributes to creating “safer, more efficient and more satisfying multifamily affordable housing” (Sazama, 2000). Given these findings, we set out to examine whether co-operatives could provide an effective model for restructuring the USDA housing loan portfolio.

Observers have long noted the difficulties faced by smaller, stand-alone co-ops, such as lack of purchasing power, lack of participation, and a lack of professionalism or adequate management skills (Housing Assistance Council, 2012; ICF Consulting Team, 2004). MHAs try to address these issues by maintaining the democratic structures of co-operatives while providing economies of scale, ongoing resident education and training, and professional staff. (Hovde & Krinsky, 1997).

Conceptual framework

Mortgage financing in §515 relies on a traditional landlord/tenant relationship. Developers receive subsidies on the condition that they will ensure management of their housing for the duration of the mortgage. Financing does not include funds that

support resident initiated programs and no ability, or requirement, for residents' participation. Since the inception of the §515 program, the demographics and economics of rural communities in the USA have changed. In recent years, these changes have manifested themselves in challenges such as an aging population, outward migration, and shifts in employment patterns.

The growing disparity among rural communities greatly influences the role of rural multi-family developments. Sometimes developments serve as transitional housing for moderate and low-income workers or permanent housing for senior citizens, people with disabilities, and/or people who are very low-income and with few or limited job prospects. Other developments (where demand for housing for these populations is lower) experience high turnover and vacancy rates and are weaker financially. Market forces shape the types of units in §515s. Developments constructed to attract people who are elderly or disabled may be mostly studio or one-bedroom units. Others, targeting families, have multiple bedrooms.

In mixed-rural communities, where the economy might be more diverse and population density higher, §515s serve the same purposes but offer an alternative housing option for people not seeking home ownership. In many of these communities, the difference in the cost of renting versus owning might be very slight. For low-income households, §515 housing can provide a more financially secure alternative.

Rural rental subsidies are often critical to the finances of residents and the financial solvency of §515 developments. However, these subsidies may not keep up with operating costs, further threatening project affordability. Working age residents of §515s can lack certain self-sufficiency skills necessary to secure alternative housing. Seniors and people who are disabled and living on fixed-incomes remain in §515s due to their limited incomes.

These issues have created a set of problems with multiple causalities. First, since rental subsidies do not always keep pace with actual operating costs, many properties are in poor repair and operating at a loss. Complicating this is unresolved federal litigation over legislation that has increasingly pressured owners to

retain their properties in spite of losses and a declining market. This means that tenants become more dependent on the owner to maintain the status quo and remain at risk of displacement if owners cannot afford to maintain the development, choose not to revitalize units, and/or choose to prepay and 'opt out' of the program. This also means that otherwise small operating reserves become smaller – making developments less attractive to retain or sell.

With properties operating with slim margins or negative income, there is no additional funding to create programs that promote residents' self-sufficiency. Particularly for developments that are owned by for-profit companies, residents are increasingly reliant on a situation that might not be long-term – reinforcing their dependency on an unstable system. Over the past 25 years there has been discussion that explores different methods of preserving rural multi-family housing. These have included: preserving the status quo (model 1); and conversions to either market rate rental housing (model 1), market rate co-operatives (model 2), limited equity co-operatives (model 2), and/or conversion to mutual housing associations (model 3).

Preserving the status quo could lead to the expiration of use requirements for the developments. This could mean a sizeable decline in the availability of affordable multifamily housing in rural areas. It is true that there are some rural communities where §515 developments have high vacancy rates. In these communities conversion to market rate rental or co-operative housing will be the de facto result of market conditions. Obviously market rate models might not protect the availability of affordable multi-family housing moderate- or low-income households. Two alternatives would be LECs and MHAs. Both models incorporate residents in the management of their properties and help to ensure their affordability. It is proposed that they would lead to the preservation, in certain rural communities, of sustainable, affordable, multi-family housing.

Research methodology

This research was derived from two sources: existing literature and interviews with key stakeholders. Key stakeholders included USDA personnel (national, state,

and local USDA Rural Development (RD) offices), funders, national and state policy analysts, statewide affordable housing coalitions, non-profit and for-profit §515 developers and managers and property managers. Two groups of tenants were also interviewed. Interviews were conducted face-to-face and via telephone – with considerable follow-up emails. Interviews were with practitioners, policy analysts and §515 residents. Their purpose was to help understand observations, concerns and challenges of key stakeholders when considering conversion to resident participation. Interviews were conducted with stakeholders from diverse rural communities in central, southwest and southern Indiana, western Massachusetts, New Hampshire, and Western and Hudson Valley regions of New York. Communities were selected based on referrals from national professional organizations and the USDA. The research was conducted from February – August 2012.

Resident participatory management

Resident participatory management can stabilize a property and enhance the quality of life for residents. Participatory management can provide low-income families an opportunity to develop the social skills necessary for self-sufficiency and independent living. Different models of resident participatory property management are applicable to different situations – providing varying degrees of resident involvement in the management of their housing.

MODEL 1 – PRESERVATION OF THE EXISTING MODEL WITH TENANT ASSOCIATIONS

A tenant association is a group of tenants, from the same building or development, formed and maintained with certain goals in mind including:

- Informing tenants of their rights;
- Building tenant/landlord relationship;
- Improving building conditions or services;
- Supporting regular communication among tenants;
- Raising community awareness; and
- Representing tenants in disputes with the landlord.

This model of engagement has its benefits. In

particular, more informed, engaged tenants who are better aware of their responsibilities as tenants are more likely to maintain their individual units and the development as a whole. This creates a more pleasing, safe living environment and eases some of the day-to-day burdens of a property manager. Managers working with tenant associations have a built-in communication tool that can be used to pre-empt or arbitrate community-wide quarrels – creating a more positive atmosphere.

Participation in tenant associations is voluntary. Therefore, the degree to which it promotes self-sufficiency among residents is limited. As a result, while some tenant associations might sponsor programs to teach self-sufficiency – and the interaction among tenants and between the tenants and landlord might encourage development of related skills. In this arrangement, the tenant remains dependent on the landlord to provide for *them*, rather than the association (and its individual members) being *fully empowered*.

An existing §515 development with the inclusion of a tenant association has the potential to engage and empower residents. The model can be applied to any rental property regardless of size. It can provide an opportunity for tenants to have an active role in the rental community. The benefits of tenant association are greatly dependent on whether the landlord supports it and is willing to work with it and whether it provides services that residents find valuable.

Table 1 provides a SWOT analysis of this model from the residents' standpoint. While this model engages and somewhat empowers residents and allows them to have an active role in the development, the existing landlord/tenant relationship remains – with greater benefits (strengths and opportunities) for the owner and/or manager.

In this model, owners/managers assume greater financial risk – although in certain situations they can pass along certain costs to tenants and/or subsidy providers.

Mandating the inclusion of a tenant association may, over the long-term, set the stage for conversion of existing housing to co-operative ownership. As tenants become more aware of their

Table 1. SWOT Analysis for Tenant Associations from Residents' Perspective

Strengths	Weaknesses
<ul style="list-style-type: none"> Engages tenants in activities in the development 	<ul style="list-style-type: none"> Requires active participation of tenants in association and regular attendance at meetings. If few tenants are active, the association will be less effective. Tenants may not be aware of their rights to organize and participate in an association. The association only provides a voluntary communication vehicle to the owner. If the owner chooses not to work with the association (or its members or other tenants) there may be little or no recourse. Only if a manager chooses to allow the association to sponsor programs that enhance the property, will he/she derive any economic benefit - and the value of the benefit is not guaranteed. No equity for tenants.
Opportunities	Threats
<ul style="list-style-type: none"> Local service providers can more easily coordinate and sponsor education and social programs for residents. Local service providers can more easily assist with educating tenants on their rights and responsibilities under local, state, and federal housing laws. Provides an opportunity to empower tenants to have a greater voice in advocating for maintenance of the development including: building conditions, services and community safety. Tenants' may develop leadership and social skills as active participants in the association. Every family can vote and has a say in decisions of the tenant association. 	<ul style="list-style-type: none"> An owner/manager may decide not to allow, or work with, an existing association. If members of the association and the owner/manager have a disagreement, it might place residents at risk of eviction. If improvements or revitalization are needed, the cost might be passed along to tenants (and sources of rental subsidies) If there are no local service providers to provide tenants with information, the association might remain weak

Table 2 provides a SWOT analysis from the owner/manager's point of view. The addition of a tenant association to the current §515 model means that the owner/manager retains tremendous control over the day-to-day operation of the development.

Table 2. SWOT Analysis for Tenant Associations from Property Manager/Owner's Perspective

Strengths	Weaknesses
<ul style="list-style-type: none"> The owner/manager can regulate the activities and participation of tenants in association. The owner/manager has no obligation to provide tenants with information about their rights and does not have to help to organize or encourage participation in an association. The association is only a voluntary communication vehicle with the owner/manager. The owner/manager can disregard association input. The manager/owner can, by controlling public spaces in the development, limit the nature of activities of the association. 	<ul style="list-style-type: none"> Tenants may not agree with the owner/manager regarding management priorities causing a strain in relations. Owner/manager may not know how to work with an association and not be able to take advantage of the improved relationship that can result from having a tenant association. Owner/manager may agree with tenants that building conditions may need to be improved; however, they may not have access to capital or financing needed to make such improvements to the building/property.
Opportunities	Threats
<ul style="list-style-type: none"> Residents might be encouraged to take a more active role in maintaining property and be willing to participate in a conversion to another more participatory management model Engaged tenants can assist with maintenance of the development including: building conditions, services, and community safety. 	<ul style="list-style-type: none"> Owner/manager may see tenants organizing as a threat to their ability to manage and make decisions related to the property. Tenants may sue landlord, once aware of and if in violation of local, state, or federal housing laws.

potential collective strength and develop certain social skills, they might become more confident in assuming a greater leadership role. Owners could turn to the association to assist them in sponsoring a conversion.

MODEL 2 – CO-OPERATIVE CO-OPERATIVE OWNERSHIP

Co-operative members participate in the governance of the co-operative and are bound by its rules. The board of directors is comprised of co-operative members, who are voted into office, and make various management and financial decisions. Market rate co-operatives allow members to accumulate equity. LECs do not. LECs encourage self-sufficiency among residents by directly involving them in the management and financial decisions of the development – although they often require substantial support and education to prepare them.

Creating or converting to a co-operative takes a considerable amount of planning, training, and time. The process requires organizing residents including face-to-face training sessions and legal and financial counseling. Through the organizing process and the resulting co-operative organization, residents can build relationships among their fellow residents, improve conditions of properties and strengthen feelings of community safety.

Table 3 provides a SWOT analysis of the LEC model from the perspective of residents and Table 4 provides the analysis from the owner/property manager’s perspective. As Table 3 illustrates, the LEC model has a number of strengths and opportunities for residents – especially those of low- moderate-income status. It allows residents to build a certain amount of equity and encourages participation in the management/governance of the property.

Table 3. SWOT Analysis for Limited Equity Co-operatives from Residents’ Perspective

Strengths	Weaknesses
<ul style="list-style-type: none"> • Residents build equity in their ownership. • Housing is permanent. • LECs preserve affordability. • Economically sustainable • Residents actively participate in property governance/management. • Equity is limited. 	<ul style="list-style-type: none"> • Residents secure their own financing to purchase shares in property. • Residents’ income, if too low, may require subsidy in order to purchase shares or pay maintenance fees. • Regulations may limit the use of rental subsidies to cover monthly carrying costs and/or purchase of shares. • Sale of the unit requires co-op approval.
Opportunities	Threats
<ul style="list-style-type: none"> • As co-operative owners, residents have a greater opportunity to become engaged in activities in the development. • Rental assistance might be used to help the development with cost of shares and/or monthly carrying costs. • Can use equity gained to pursue other opportunities • Opportunity to learn and social and financial literacy skills. 	<ul style="list-style-type: none"> • Residents may not be knowledgeable about co-operative ownership and/or be reluctant to participate. • Requires preparation and education to develop interest/willingness to purchase shares. • Competes with traditional homeownership programs. • Financing products may not be available to residents to purchase shares. • Residents’ income may be too low to purchase shares in building and therefore may become displaced.

As Table 4 shows, LECs provide many benefits for an owner looking to sponsor a conversion. Very often, larger co-operative developments employ property managers to assume the day-to-day tasks of operations. This means that an owner willing to

convert to a LEC would preserve its affordability and see the benefits of consistent cash flow from management fees while sharing the challenges of market forces.

Table 4. SWOT Analysis for Limited Equity Co-operatives from Sponsor's Perspective

Strengths	Weaknesses
<ul style="list-style-type: none"> • Monthly maintenance fees paid to a management company to maintain add to financial stability. • Improved communication and relationship between residents and property management. • Builds self-sufficiency among communities of low and/or limited income people. 	<ul style="list-style-type: none"> • Owner would have to agree to sponsor the conversion or sell to another entity. • Limited income of residents may not be enough to keep up with costs of owning and maintaining property (i.e., property tax rates, maintenance, improvements etc.).
Opportunities	Threats
<ul style="list-style-type: none"> • Managing multiple developments can increase (already stable) income for property managers. • As co-operative owners, residents become engaged in activities in the development • Rental assistance might be used to help cover the cost to purchase of shares and pay monthly maintenance costs. • Maintenance may be easier since residents may have a more active role in maintaining property. 	<ul style="list-style-type: none"> • Current or other potential sponsors may lack the capacity, or be unwilling, to assist with the conversion. • RD office would need to approve the conversion. • Financing for necessary revitalization may not be affordable by the development or allowed by USDA.

TABLE 5. SWOT Analysis for Mutual Housing Associations from Residents' Perspective

Strengths	Weaknesses
<ul style="list-style-type: none"> • Residents, through membership in the Association, control costs. • Residents who are members of MHA have right to lifetime occupancy. • Rents/Fees are used to maintain properties and to preserve and expand affordable housing • MHAs can (if they choose) offer market rate and below market rate units which add to long-term financial sustainability of properties. • Residents can move out if they choose, without penalty • Residents actively participate in property governance/management. • Housing development becomes economically self-sufficient since the MHA provides services, as required, to its members • Members are actively engaged overseeing the services that are provided. 	<ul style="list-style-type: none"> • Monthly membership charges could be cost prohibitive for some potential members/residents.
Opportunities	Threats
<ul style="list-style-type: none"> • Residents can develop social and financial literacy skills as a result of their participation in the MHA. • Residents can become more self-sufficient as they become more actively involved in the community. 	<ul style="list-style-type: none"> • Lack of knowledge about what a MHA is, how it works, and the benefits over other low-income rental housing and types of providers. • MHAs with smaller membership and/or located in more isolated communities might have higher operational and maintenance costs.

MODEL 3 – MUTUAL HOUSING ASSOCIATIONS

MHA's allow for, and rely on, a high degree of self-sufficiency among residents. This is achieved because of their structure. Governance of an MHA rests with the Association and its members. Management is responsible to the Association as represented by its board of directors. Members are responsible to, and for, the Association. As a result, the same strengths, weaknesses, opportunities, and threats exist for both residents and the development. This shared responsibility results in a stronger 'union' among members of the association. As part of a community environment, MHAs can work with other organizations in the area to enhance services provided to their members.

The MHA model is applicable to a wider range of §515s located in different types of communities and provides residents greater control over individual housing decisions. In particular, residents can leave without penalty or having to find a buyer or wait for board approval to sell their shares. MHAs offer a financially sustainable model to preserve and revitalize §515s developments. Table 5 provides a SWOT analysis of MHAs as a housing model (See page 53).

Results

At the broadest level, policy and funder stakeholders agreed that certain regulatory policies that govern §515s should be changed in order to provide a framework to allow for conversion and revitalization. One area often mentioned is how the USDA determines the need for new §515s. Often, an area had been designated as a priority without consideration of larger economic and housing market conditions. A community might be designated as in great need for low income, multi-family housing – but it might also be a community that has seen a high level of outward migration and/or might be extremely remote. In these situations conversion and revitalization of an existing §515 development might not be appropriate. There was general agreement among stakeholders that while conversion to resident participatory management schemes was to be

encouraged, this needed to be considered within the broader question of determining community need and market conditions.

Multiple stakeholders expressed concern over restrictions placed on owners with regard to prepayment of their mortgages (an issue currently in litigation). The concern is that when an owner wants to prepay their mortgage to leave the program, rather than considering alternative management models, there is a tendency to try and keep units in the program regardless of market conditions or the quality of life of residents. Owners are encouraged – even required – to preserve current rents for current tenants while allowing them to rent to new tenants at market rates. Making these decisions without regard to market conditions and resident input further destabilizes the individual developments and their surrounding communities.

Stakeholders expressed concerns over how human service supports could be provided in developments that had large numbers of residents who are elderly and/or disabled. These residents may not be able to drive, thus requiring para-transit systems to reach health and community services. Both property managers and tenants are concerned that current §515 regulations do not allow the funding of on-site assistance from project operating funds. Property managers and off-site service providers offer varying degrees of coordinated assistance. Where such assistance was not available, residents may not be able to access needed services. Property managers pointed out that they often were placed in the position of being social service providers as an unfunded service. Non-profit providers feel compelled to provide such services since it is within their mission.

Conversions to LECs and MHAs will need financing both to pay for the conversion and provide capital that can be used to revitalize the development. This might be found in the form of tax credits. Non-profit developers, in particular, rely on tax credits as a source of capital. However, while non-profit developers described themselves as familiar with the complex regulations governing low-income housing tax credits (LIHTCs), some

expressed concern that access to them had been reduced as a result of the recent financial crisis and talk of potential tax reforms. There was general agreement that the process of obtaining a LIHTC allocation and/or tax-exempt bond financing was “difficult and requiring a high level of specialized knowledge.” Lacking this capacity places many non-profit developers at a disadvantage if they want to become involved in preserving and revitalizing §515 developments.

Lastly, there was true enthusiasm among these developers to work with USDA and state agencies to design policies that would encourage revitalization. Most viewed this as an essential way of strengthening the economic and social characteristics of rural communities. They also saw it as a way of expanding housing resources in many communities. Some (who were familiar with the MHA model) expressed support for the use of LIHTC to finance the conversion of §515s to MHA ownership. These people felt that conversion of portfolios, rather than single developments, was wise because it helped create economies of scale.

Owner/managers of few (less than 5) and many (more than 12) developments pointed out that current regulatory requirements left little time to devote to ‘tenant relations’. These managers said that while some type of tenant participation might be ‘nice,’ the volume of inspections and audits from regulators as well as financial audit requirements, meant that extra operating income that could be squeezed from budgets always needed to be used to cover more urgent priorities.

Certain managers described the sometimes-difficult process of obtaining approval to pursue revitalization or changes in ownership/management from local USDA offices. Existing regulations are not designed to promote conversions. They also explained how daunting conversions to limited equity or market rate co-operatives might be since, without external support, tenants may not have the knowledge or ability to secure their own financing to purchase shares in property. These difficulties are mostly due to a lack of a framework to pursue them, rather than regulations that prohibit them.

These organizations see themselves as providing housing and, in some cases, supportive services to tenants. They didn’t necessarily see themselves as landlords. But, as they pointed out, the services they were providing were not designed to promote self-sufficiency and eventual independence for their tenants. Many §515 managers noted that the cost of supervising tenants in taking an active role in even minor projects (social programming, beautification et al) was prohibitive. They described their role as one of a traditional subsidized housing provider where social services are not mandated and self-sufficiency outcomes not required.

For-profit property owners, and those familiar with the market, also noted that the current state of affairs, limiting their ability to ‘opt out’ of the program by prepaying their mortgages, placed them in a catch-22. Many stated that they were unable to continue to operate their properties as a result of negative cash flow and felt that staying in the program and accepting additional rental subsidies further jeopardized the sustainability of their developments. Some owners noted that their only alternative (if they could not leave the program) was to acquire additional properties. Scaling up, in their view, provides greater positive cash flow and improves their equity position. However their ability to reinvest to revitalize their properties remains limited.

Non-profit owner/managers described the difficulties faced when trying to acquire properties as they become available either through expiring use or when an owner wanted to opt out of the program. They specifically noted the difficulty in securing financing to purchase the property and the legal complications of assuming a property financed under §515. They pointed out that very often, banks are unwilling (or unable) to provide acquisition financing since the properties had depreciated – in part due to lack of maintenance – or lack of a stable rent roll. Some also pointed out that owners who might otherwise be willing to consider selling expressed reluctance to opening pre-payment negotiations with USDA. They explained that many of these owners stated a preference to wait until their mortgage could be paid off and, at that point, convert the property to market rate housing or sell it to private investors.

A related issue is the capacity of non-profits to “package a deal” to purchase a group of properties. Policy analysts pointed out that many non-profit developers operated within certain geographic areas and with fairly limited assets. In order to provide cost effective management (as landlords) they would need to operate multiple developments (scale being important to have sufficient operating income). This lack of financial and/or human expertise meant that most were ill equipped to revitalize, convert and/or operate multifamily properties at a larger scale. This means that even if tax-exempt bond financing or LIHTCs were available, access to the market and the expertise to assemble a purchase would be a major challenge.

All pointed out that the lack of self-sufficiency among tenants of §515s was a problem. They observed that the current system meant that residents were ill-equipped to assume any role greater than tenant. They pointed out that the pressure to rent to people who were extremely low-income not only impacted operating margins but also limited the scope of services to tenants. This meant, as they described it, that §515 units were being rented to people who often lacked strong self-sufficiency skills and, rather than create a system to build those skills, tenants became increasingly dependent on the existing system. Some viewed this as an example of warehousing since many developments were located in fairly isolated communities. A major obstacle to any form of increased resident participation in the management of §515 properties was a lack of social skills by residents.

A second important point, raised mostly by non-profit service providers, was the lack of a mechanism to act as a “voice” for residents. They, again, pointed to the current financial and management structure of §515s as cause. Stakeholders pointed out that the system leaves little opportunity to provide a mechanism that promotes communication among a formal group of residents and managers. While they were quick to point out that the size of the developments that they managed was small enough to promote communication between managers and tenants, because relationships were based on a

landlord/tenant model rather than a participatory model, such relationships were not always encouraged. Tenants voiced similar observations. In particular, some mentioned a desire to take a greater role in projects such as recycling and beautification, but noted that there was no mechanism to do so.

Research conclusions, recommendations and possible generalizations

The literature review illustrates the benefits of tenant participatory management when applied to housing preservation efforts. The purpose of the field research was to test the assumptions of the research questions on a small group of stakeholders.

Even with the changing nature of rural communities in the United States, there remains a need – in many of those areas – for affordable, stable, quality multi-family housing. People who are elderly and/or disabled and working age families, for a variety of reasons, continue to need housing options other than home ownership. The §515 program has traditionally provided the financing for multi-family developments based on a traditional landlord/tenant relationship. Tenants have had little opportunity and little incentive to participate in the management of their housing.

The subsidies developers have received as part of the §515 program stipulate that tenants receive rental subsidies for the duration of the mortgage. As a result, multi-family housing in rural communities has been artificially sustained. Market forces do not directly affect supply and demand for units.

As the current public policy debate in the United States expands to include a re-evaluation of mortgage subsidies and tax incentives, eventually the discussion will include a re-evaluation of the rural rental subsidies in general and the §515 program specifically. Current policies have led to tenants becoming more dependent on owners to maintain the status quo and remain at-risk of displacement. For owners, this has meant that otherwise small operating reserves have become smaller – making developments less attractive to retain or sell. Either is a destabilizing prospect for rural communities.

Developing a system to convert a certain number of §515 developments to a resident-inclusive model of management are becoming increasingly relevant to the discussion. Whether through a tenant association, co-operative or mutual housing association – involving tenants in the management of their housing can stabilize communities and preserve affordable multi-family housing for important rural subpopulations.

The research suggests that LECs and MHAs are viable social models but that the small size and isolation of properties in the §515 portfolio means that only MHAs are financially feasible as a conversion methodology. Because MHAs incorporate residents in the ongoing management of their properties, they can ensure the long-term availability of affordable multi-family housing for successive generations.

Given the varied economic and social conditions of different rural regions in the United States, the conclusions cannot be generalized. However, the observations of the stakeholders who were interviewed, and the conclusions of the research team, strongly suggest the need for USDA to consider demonstration projects that incorporate tenant participatory models. While additional research is always welcome, the research team believes that sufficient proof exists to support the benefits of tenant participatory management in housing preservation work. Additionally, given the successful history of the three types of management models discussed, there is no need for USDA to ‘reinvent the wheel.’ In other words, the researchers believe that the study makes a solid case for the application of MHAs as a means of preserving affordable multi-family housing in rural communities within the existing program framework.

We believe that this is a position that, if advocated by rural housing preservation, co-operative and mutual housing association advocates, would lead to regulatory changes by USDA and the expedient creation of demonstration projects which would serve as a prelude to permanent changes to the program.

Appendix 1 Organisations in which interviews were conducted

- 2Plus4 Management, Watertown, NY
- City of Bloomington, Housing Department, Bloomington, IN
- Community Action in Self-Help, Lyons, NY
- Community Service Programs, Inc., Wappingers Falls, NY
- Council for Affordable and Rural Housing, Washington, DC
- Genesee Valley Rural Preservation Council, Mt. Morris, NY
- Great Lakes Capital Fund, Indianapolis, IN
- Hilltown CDC, Chesterfield MA
- Hoosier Uplands, Mitchell, IN
- Housing Assistance Council, Washington, DC
- Housing Preservation Project, St. Paul, MN
- Knox County Housing Authority, Vincennes, IN
- Milestone Ventures, Indianapolis, IN
- Musselman Apartments, Linton, IN
- New Hampshire/Vermont State USDA Office
- New York State Rural Housing Coalition, Albany, NY
- RD Office of New York State
- Stewards of Affordable Housing for the Future, Washington DC
- Valenti Real Estate Services, Inc., Indianapolis, IN
- Wyoming County Community Action, Perry, NY

Notes

- 1 Self-sufficiency in this study is discussed at the level of the individual households. Self-sufficiency at the individual level of analysis “intimates a complex social exchange in which individuals serve social functions and are also given consideration as individual human beings in their own right.” (Daugherty & Barber, 2001, p. 669). This incorporates both economic factors such as employment as well as the ability to participate in resident management of the housing.
- 2 The authors recognize that land trusts present a well-established method of preserving affordability. Their usefulness is especially potent in single-family ownership formats. Both the structure of the §515 program and the affordability enforcement mechanisms inherent in the LEC and MHA models examined eliminated the need for a land trust overlay. As a result, our research did not include this segment of the rural housing market.
- 3 Appendix 1 includes a list of the offices and/or organizations that individuals were from. It does not include their names since (very often) the information they were providing did not necessarily represent positions or decisions of their organizations.
- 4 Since their management is based on a resident controlled association, no separate owner or sponsor is involved. Therefore, only a single SWOT analysis is provided.
- 5 This includes residents of certain developments.

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Housing Co-operative Societies and Sustainable Housing Delivery in Oyo State, Nigeria.

A.T. Adeboyejo and J.A. Oderinde

Abstract

Organised private sector housing serves as one of the means for enhancing housing delivery in Nigeria. The co-operative movement has consequently been recognised at both the Federal and State levels to achieve such a goal. By empirical investigations into the extent to which the anticipated goal of the government is being achieved in this direction, this paper evaluates the potential and actual contribution of co-operative societies to sustainable housing delivery in Oyo State, Nigeria. It developed criteria to evaluate the nature, structure and functioning of the co-operative societies and analysed inter-city variations in the levels of housing delivery through co-operative societies.

The paper focuses on co-operative societies in three urban centres in Oyo State: Ibadan, Ogbomoso and Oyo. Apart from being the largest cities in the State, they are also pre-colonial urban centres where urbanism as a way of life predates the European colonisation of the country. Also co-operativism and associational lifestyles are as old as the cities and housing problems are more acute in these areas than other parts of the State. The data for this study was mainly from primary sources. Relevant secondary data such as the co-operative bylaws and constitutions were obtained from the Oyo State Ministry of Investment and Co-operatives, Ibadan. Information elicited and assessed include: the internal structural organisation of the societies and existing external relationships and how these provide smoothening or constraining frameworks for effective service delivery. Inter-city variations in the capital base of societies, the amount of loans disbursed to members, patterns of reported loan utilisation were cross tabulated, with Chi-square specified to test the significance of variations, if any. Multiple regression was used to examine the

determinants of the number of loan beneficiaries as dependent variable and, capital base and membership size as independent variables

The results show, among others, that there is a high level of formalisation, internal structural organisation and democratic content among the Societies. The co-operative societies were found to be stable, viable and effective in resource mobilisation for sustainable housing delivery. About N146 million or \$974,000 was mobilised and disbursed by all the co-operative societies over the ten-year period of the study, with co-operative societies in Ogbomoso, Oyo and Ibadan respectively having 37.4, 34.3 and 28.4 per cent. Similarly, the proportions of houses delivered were for Ogbomoso 40.5 %, Oyo 30.4 % and Ibadan 29.1 %. Results of the regression model show that with $r^2 = 0.129$, only 13% of the number of loan beneficiaries is attributable to capital base and membership size of societies. Extraneous factors such as household income, prompt repayment of loan are identified as determinants of the number of loan beneficiaries. The study recommends the need to encourage the populace to join co-operative societies and that given stronger financial backing by the government, co-operative societies would empower more people in housing delivery in the State.

Key Words

Co-operative housing, housing delivery, Oyo State

Introduction

It is now a well-recognised fact that Governments in most, if not all developing countries of the world and Nigeria in particular have not been, nor will they likely be able to adequately provide direct housing to all that are in need of shelter. Whereas decent housing has been universally accepted as one of the basic needs of individuals, the family and the environment, (National Housing Policy, 1991; Abubakar, 1991 and Adeboyejo, 2005), and that, housing is a reflection of the cultural, social, aesthetic and economic values of a society as it is the best physical and historical evidence of civilisation in a country (Onibokun, 1976), the provision of a sustainable solution to housing delivery problems to the masses has been an elusive goal of various regimes in Nigeria, particularly since independence.

There is the tendency in the literature to conceptualise sustainable housing within the context of environmental sustainability, or eco-friendly construction where the housing programme is focused on green construction as seen in the Earthship campaigns in different parts of the world (Michael 2013; The Guardian Aug 6, 2013; www.sustainablehousing.cal/ 2013). However, within the context of the generally held view of sustainable development, Yakub et al 2012 defined sustainable housing as:

“meeting the accommodation needs of the present without compromising the ability of future generations to meet their accommodation needs”.

This definition is however too general and fails to provide the required direction for programme intervention that have the poor masses as their target. However, Olotuah et al (2009), within the context of housing provision, defined sustainable housing provision as:

“the gradual, continual and replicable process of meeting the housing needs of the populace, the vast majority of who are the poor and are incapable of providing adequately for themselves”.

They argue further that this notion ensures housing strategies that are stable and not subject to vagaries in the political circumstances of the country. Although this definition is more attractive since it emphasises continuity and replicability, two major principles of sustainability. For the purpose of this discussion and, from the point of view of housing delivery and finance mechanisms, sustainable housing refers to, continuous empowerment of the people, particularly the middle and low socio-economic group to provide, rehabilitate and maintain individual houses and related facilities and services at affordable prices. It implies, creating a smoothening policy framework by the government or its relevant agencies and making available, accessible and affordable to different socio-economic classes, the required financial and material resources so as to enable them to individually build their houses or improve their housing conditions to a desired and socially acceptable level. The extent to which co-operative societies are relevant in contributing to the sustainable housing delivery in Oyo state is the main goal of this paper.

Whether the term is used as co-operative housing or housing co-operative the literature on the subject matter is extant with conceptual clarifications (Wikipedia 2013, Sazama, 2000; Fasakin, 1998; NCHAA, 2001; Kennedy, 1996). The different definitions however reflect varying typologies rather than kind of co-operatives. For instance, Wikipedia defined Housing co-operative as “a legal entity, usually a corporation, renting own real estate, consisting of one or more residential buildings, and that, it is one type of housing tenure”. According to Sazama (2000)

“a housing cooperative is one in which member-residents jointly own their building, democratically control it and receive the social and economic benefits accruable from living in and owning a cooperative”.

while according to Fasakin (1998), co-operative housing

“is a society that corporately owns a group of houses or flats in which each member

participates actively in all matters concerning the estate”.

To the National Co-operative Housing Association of America (2001), co-operative housing is a form of multi-family ownership venture between co-operative corporations and the corporation's owners, called tenant-stockholders. Summarising basic structural features of the societies, Muenkner (2001) argued that genuine co-operatives are organisations for voluntary resource mobilisation in self-help groups by people themselves and for their own benefits which is characterised by four advantages; self-help organisations; people centred organisations; voluntary organisations with open membership; and self-managed organisations.

The varieties of definitions notwithstanding, there are striking commonalities in the typologies, objectives and organisational frameworks of housing co-operatives in different parts of the world: as described for the USA by Sazama, (2000); for Germany, by the Housing and Real Estate Enterprises (2013); and, for Australia by The International Co-operative Center (2003). The typologies of co-operatives vary from mutual housing association to leasing co-operative and from limited or common equity co-operative to market rate co-operative. The general objective function of the housing co-operatives is to provide for the low and medium income class, decent and affordable housing. In terms of structure and function, they are mostly set up by civic organisations or private realtors with partial funding from governments which in most cases act as policy maker or facilitator.

In Nigeria, co-operative housing is not new, as the principle is embedded in the customs of many Nigerian ethnic nationalities. Among the Yorubas of South-western Nigeria, for instance, informal co-operative means, known as aaro in local language, have been used to achieve aspects of home ownership. This involved pooling physical efforts of relatives and friends, and obtaining loans, aajo or esusu from saving societies. However, there are very few, if any formal, or real housing co-operative movements in the country. In different cities and, within various public and private

Institutions in Nigeria, there are varieties of Co-operative Thrift and Credit Societies, with multiple objective functions. According to Agbola (1998), these societies are usually organised as social associations but with a more explicit commitment to financial activities of individuals and thus the collective interest of their members. It is observed that, the various multi-purpose, co-operative societies in Nigeria have increasingly been extending their activities and services to aspects of housing delivery such as the purchase of land and allocation of plots to members who can then build incrementally through loans from the co-operative societies. Yakubu et al (2012) reported the cases of senior staff co-operatives of two Polytechnics in northern Nigeria which, after about ten years of operations extended services to housing provision for members. It is therefore the examination of the potential and actual contribution of the multi-purpose housing co-operative societies to sustainable housing delivery in Oyo State that is the goal of this paper.

The paper seeks to answer the following questions :

1. Judging by their levels of formalisation, democratic content, accountability, age, membership size and composition, whether the co-operative societies in Oyo State are viable as vehicle for sustainable housing delivery.
2. What are the different sources as well as varying levels of capital formation of the societies?
3. To what extent have the societies contributed to housing delivery in the study area?
4. What are the determining factors for the housing delivery performance of the housing co-operatives?

The study area

The areas of this study are Ibadan, Ogbomoso and Oyo all in Oyo State, South-western Nigeria. The cities are not only the three largest urban centers in Oyo State in terms of population and spatial extent; they are pre-colonial urban centers where associational life is as old as the cities themselves.

This situation has profound effects on their urbanisation process and thus makes housing problems in them more acute than in some other towns in the state. The high rate of urbanisation is largely as a result of the rural-urban migration into the cities. It is assumed that the higher the population and rate of urbanisation in a city, the higher the level of housing needs of its inhabitants will be. There is no doubt that housing shortage and its concomitant problems in these urban centres are due to the influx of people into the cities. There are various ways by which the urban dwellers individually find solutions to satisfy the basic need of housing for their families. One of such ways is associating themselves with one or another form of co-operative, in the town. To this end, the co-operative societies in these three urban centres were selected for survey with a view to evaluating their potential and actual housing delivery activities.

Research methodology

Given the long list of the co-operative societies in Oyo State generally and in Ibadan, Ogbomoso and Oyo towns in particular, this study focused on those co-operative societies that were registered with the State government and also stated housing provision as one of their functional objectives. This involves reviewing the list of such societies, as made available by the Oyo State Ministry of Trade, Investments and Co-operatives. As shown in Table 1, a total of 680 housing co-operative societies in this category were encountered, out of which a representative sample of 70 per cent (477) were randomly selected for questionnaire administration. However, only about 53% (254) returned the completed questionnaires served to them. The information elicited from the societies included: their objectives, operational modalities, characteristics of housing schemes/layouts prepared, characteristics of housing projects executed, including types, location, as well as the amount of loan

disbursed and the number of beneficiaries.

The total number of members of the 477 sampled Societies in each city was also compiled and shown to be 7949. Although 70 % (5565) of membership size was targeted for sampling for the purpose of questionnaire administration, however a total of 5246 or 60 per cent was eventually selected because of difficulty in locating some members that were to be selected in each city. State level information on general administration and management of the societies was obtained from the officials of the Oyo State Ministry of Trade, Investments and Co-operatives, Secretariat Ibadan; while city level information were obtained from the co-operative societies' executives in each city.

Data analysis techniques

The nature, structural organisation and functioning of the co-operative societies are evaluated using five indices developed for the purpose. Table 2 shows the variable components of the indices. This is with a view to determining the society's viability as a vehicle for sustainable housing delivery in the study area.

The indices are: formalisation; democratisation; accountability, participation of women and demographic index, measured by the age and size of the co-operatives. For the first four indices (X1 to X4), a score of 1 is awarded to each society if the criterion is met and 0 if not. The score of all the societies is then computed by summarising the total score and dividing this by the number of societies involved in the computation. In all cases however, the mean score is also the maximum obtainable score. For the demographic index, descriptive statistics of percentage and mean were used. The discussion is supplemented by a content analysis of relevant documents such as the societies' quarterly and annual reports, as well as minutes of meetings.

Table 1: NUMBER OF SOCIETIES AND THEIR MEMBERSHIP SIZE

City	No. of Housing Co-operative	No selected	Membership Size of selected societies	No. of questionnaire returned by societies	% recovered from societies
Oyo	145	102	1,598	87	85.3
Ogbomoso	190	133	2,094	95	71.4
Ibadan	345	242	3,802	72	29.8
Total	680	477	7,494	254	53.2

Source: Authors

Table 2: STRUCTURAL INDICES AND VARIABLE COMPONENTS

Var no.	Index	Variable components	Max score	Min score
X1	Formalisation	1 Registration with State (1 or 0) 2 possession of bylaws (1 or 0)	2	0
X2	Democratisation	1 presence of major five offices (President, V-P, General Secretary, Financial secretary, Treasurer) (1 or 0) 2 mode of election into various offices, whether by selection, replacement or general election 3 decision about loan size and beneficiaries	3	0
X3	Accountability	1 accounts audited periodically by internal and, or external auditors 2 audited accounts presented to general committee 3 availability and consideration of bank statements	3	0
X4	Participation of women	1 women as Executive officer 2 % of women member (min of 20% is 1)	2	0
X5	Demographic index	1 age of society 2 membership size	350	10

Source: Authors

In order to assess the potential and actual contributions of co-operative societies to sustainable housing delivery, certain variables are considered pertinent. These are: capital base of the societies, sources of funding, the number of loan beneficiaries, the amount of loan granted to each member that is in need of such and pattern of loan usage. The variables were cross-tabulated, with a Chi-square test specified to show inter-city variations and level of significance. These variables should therefore provide insight into the economic power of the societies and their ability to deliver housing units on a sustainable basis. In order to analyse the determinants of the number of housing loan beneficiaries as a measure of performance of the societies, multiple regression models were employed, where Y_i is the number of loan beneficiaries, X₁ membership size of co-operative societies and X₂ societies' capital base are independent variables. A content analysis of such documents as societies' constitution and relevant bylaws, membership register and record of building projects was carried out.

A major observation here is that, access to capital for prosecuting either personal or group projects is difficult with the commercial banks or Private Mortgage Institutions (PMIs) much as it is with loans obtained from co-operative societies. Furthermore, the interests on loans from commercial banks make repayments of any loan obtained through them more

difficult than the low interest rates of the co-operative societies. Once a member has enough assets in the co-operative society to which he/she belongs, the chances of obtaining loan for housing delivery are higher than from other sources.

Results and discussion

Nature Structure and functioning of Co-operative societies

The analysis and discussion here is based on the result of analysis of the five indices used to evaluate the nature, structure and functioning of the co-operative societies in conjunction with the content analysis of the relevant documents obtained from the Ministry of Trade, Commerce and Co-operatives in the State, as well as the periodic reports, constitutions and bylaws of the sampled societies. It is argued that, the structure and functioning of the societies would provide a smoothening or constraining framework for sustainable housing delivery.

The index of formalisation features such issues as registration status of societies and possession of constitution or bylaws and thus should help in answering the pertinent questions of legality, viability and stability of the societies as a means for sustainable housing provision. In the case of the societies in the study area, available documents show that all of them

registered with the appropriate unit of government, that is, the Ministry of Trade, Commerce and Co-operatives. The rights and duties of the members and their elected officers include the financing of the society, housing construction and allocation, management and transfer of property as well as all other relevant matters entrenched in the co-operative bylaws and any other matter as may be decided, from time to time by the general assembly. In fact registration of any co-operative society can only be approved after the approval of its bylaws by the Oyo State Registrar of Co-operatives.

The index of democratisation measures the extent to which democratic principles are adhered to by the societies. Relevant topics here include the presence of various offices, mode of election of office holders, the ability of each society to uphold popular opinion and allow members to participate in decision making. These criteria are useful in evaluating the ability of each society to muster public opinion in matters relating to housing delivery and hence the viability of the societies as agents of sustainable housing provision. It is observed that in line with the nature, structural organisation and functioning of co-operative Societies at the national level, there is observed a high democratic content in the composition and operations of co-operative movements in Oyo State. Firstly, the co-operative movement in the State is guided by the co-operative laws of Nigeria.

Within the existing structure, actual power belongs to the members who elect their representatives among themselves, to direct the affairs of the society. The societies and their Mother Unions (at the city level) are autonomous in their operations. The lowest level of operation, as shown in Fig.1, is at the individual level, when a person decides to be a member of a co-operative society. Groups of societies of similar interests come together to form a Mother Union which serves as a coordinating house to all the societies in the city. The Mother Unions in turn constitute the State's Co-operative Federations that are also in turn constituted into the National Co-operative Federation called the Co-operative Federation of Nigeria (CFN).

The accountability index measures the level of financial discipline and transparency of elected officials. The effectiveness of the association for sustainable housing delivery can only be achieved where members and

officials show high degree of financial accountability and discipline. This is the basis of mutual trust and respect between the leadership and followership and therefore an indicator of viability of societies for sustainable housing delivery. In the study areas, there is observed high degree of accountability, in the fact that the accounts of each society was required, by constitution, to be audited annually by an independent co-operative Auditors (in some cases the societies have internal auditors elected among members) and the report submitted to the Registrar at the State level after it must have been discussed at the general meetings. Samples of audited account were inspected during the field work. Audit report assists the appropriate authorities to discover any cases of mismanagement, or other problems at an early stage. In its capacity as the supreme authority, the membership considers and decides on the report of the committee of management, the audit report, the balance sheet and the profit and loss account. It discusses and elects the board and members of other committees, accepts or rejects new members, decides on the use of securities, reserve of maintenance funds and all other matters which are raised by the committee and members.

The index of women participation shows the extent to which women were involved in the housing delivery activities of the societies. It provides information on the ability of the societies to mobilise or involve the hitherto neglected or marginalised female population in housing delivery. The result of the field survey shows that out of the 7,494 that form the entire population of registered cooperative societies in the study area, 3,530 or 47 % were female while 3,964 or 53% were males. This shows that the societies were not only strong numerically, the level of female participation was high, implying good opportunities for women to benefit from housing delivery initiatives.

The Index of age and size (demographic index) of societies provides insight into the numerical strength, as well as the experience of the societies in housing delivery activities. Results of field investigations show that about 40 per cent were over fifteen years old, while another 25 % were between ten and fifteen years old. The Co-operative law stipulates a minimum membership size a society must attain to qualify for registration

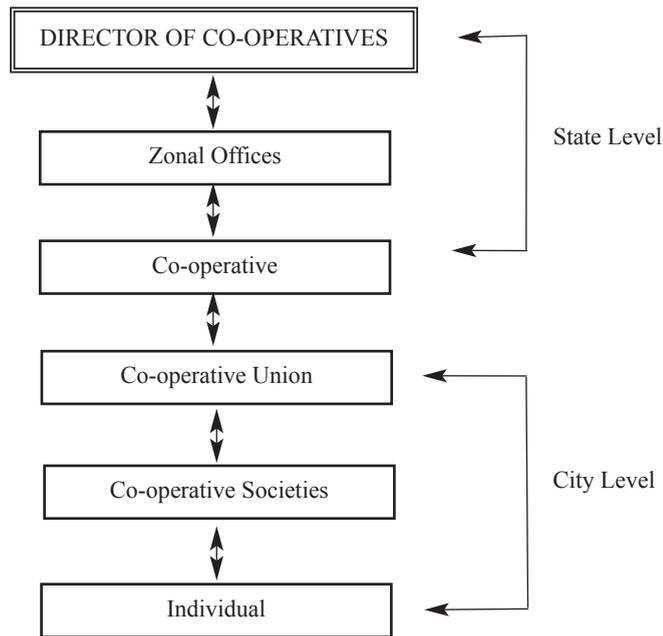


Fig. 1. Structure of Co-operative Societies in Oyo State.
Source: Authors

to be ten, in the study areas the average size of the co-operative societies is 15.7. There were a few large societies with membership size of 350. Thus in terms of demographic index, the societies are not only strong numerically but well experienced to understand the relevant customs, policies and practices regarding the prevailing land tenure systems, as well as various issues relating to land acquisition, building material sourcing and costing among others.

As shown in Figure 1, the co-operative societies have an elaborate structure with individual members of each of the societies, in each city at the lowest level of the organogram. Although all the societies are under the supervision of the Director of Co-operatives at the state level, the government Ministry plays only supervisory roles and does not in any way interfere with internal governance or functioning of the co-operative societies. The hierarchical arrangement in Figure 1 further implies government recognition of the constituent societies as legal, socio-economic interest groups allow under law to function within their respective geo-spatial units.

Capital base of the societies

Perhaps the most fundamental issue in housing delivery is finance. The ability of a co-operative society

to meet the financial demands of its members at any point in time is a function of its capital base. By it, the societies provide ready-made opportunity for members to obtain loans at any time. Results of field investigations show that all the 477 societies surveyed had a total of N10.2billion (US \$64,096,875), or an average of N21.5million (US \$134,375) as capital base. Further result as summarised in Table 3 shows that a total of 237, or about 50 per cent of all the societies had a capital base of between 5 and 9 million Naira (US \$33,334 to 60,000) each, followed by those with capital base of between 1 and 4 million Naira (US \$6,667 to 26,667). A few of the societies, 20 or 4.2% had between 10 and 14 million (US \$66,667 to 93,334) capital base which can be used as revolving loan. More than half (55%) of the societies with the highest capital base of between N10 to 14million or US \$ 67,000 to 93,000 were in Ibadan, while Ogbomoso and Oyo shared the remaining 45% in almost equal proportions. It has been shown that co-operative societies as a typology of Community Based Organisations, possess great potential to mobilise funding for physical development projects in Nigerian urban centres (Onibokun and Faniran, 1995).

Sources of funds for the societies

Also in line with similar observations (Agbola 1998, Onibokun and Faniran, 1995), and as shown in table 4, the bulk of the fund for the societies come from members' savings (33.9%) followed by

Table 3: ESTIMATED CAPITAL BASE OF THE SOCIETIES

City	1 – 4m Naira	%	5 – 9m Naira	%	10 – 14m Naira	%	Total
Oyo	58	56.8	39	37.8	5	5.4	102
Ogbomoso	30	22.9	99	74.3	4	2.9	133
Ibadan	132	54.5	99	40.9	11	4.5	242
Total	220	46.1	237	49.7	20	4.2	477

Source: Field Survey, 2010.

Table 4: SOURCES OF FUNDS FOR THE SOCIETIES

City	Savings	%	Investments	%	Development Levy	%	Loan Interest	%	Total
Oyo	20	22.9	25	28.7	20	22.9	22	25.3	87
Ogbomoso	40	42.1	25	26.3	15	15.8	15	15.8	95
Ibadan	26	36.1	24	33.3	12	16.7	10	13.9	72
Total	86	33.9	74	29.1	47	18.5	47	18.5	254

Source: Authors

investments (29.1%), which comprises mainly of investments in stocks and shares. Development levies are compulsory payments that members must make and is often calculated as part of individual savings when the loan is to be collected.

The interest obtained from loans is as significant as the development levies, each with (18.5%). This is to be expected since these two sources determined not only the amount a member can obtain but also the dividend accruable to any member. The relative importance of the sources of loans, though, shows inter-city variations, savings and returns on investments remain the first and second most important sources of funds for societies in Ibadan and Ogbomoso.

Housing delivery initiatives of the societies

Results of field investigations reveal that involvement of housing co-operative societies

range from encouraging gainfully employed city dwellers to join the co-operative society, to making land available to interested and qualified members and making loans available for incremental housing construction beginning from foundation laying to provision of facilities and services including furnishing. Major contributions of the societies, as recorded in the three cities include: preparation of approved housing schemes; granting of loans to members and to some extent, direct building construction.

Housing schemes

Perhaps because of the politically sensitive nature of landed property in Oyo town, which had made purchase of large expanses of land and preparation of housing schemes in that town difficult, co-operative societies in Oyo town preferred to allow individual members to personally acquire and develop their land for residential purpose, while they provide the needed financial assistance. Consequently, only co-operatives in Ibadan and Ogbomoso provided

detailed information as to the location and characteristics of housing schemes prepared and shared out to members.

The Eweena scheme is an example of a co-operative housing scheme approved by the State Ministry of Land, Housing and Survey. All the surveyed co-operative societies in Ibadan made available housing schemes in four different locations, with a total of 132 plots of land and a total size of 10.062 hectares, while in Ogbomoso, a total of 1200 plots, in 5 different schemes for the surveyed societies which amounts to 62.4h of plots had been made available within the last 10 years (2002 to 2012).

Apart from the few co-operative societies (14%) in Ibadan such as the Oke-Bola Co-operative Society and NUT Co-operative that claimed they had constructed buildings for members to purchase on an owner-occupier basis, all the societies in Ogbomoso preferred to provide loans to members to build their houses to their own taste apart from making plots of land available for members. Most members (96%) in all the three cities preferred to utilise the loan granted to them personally for obvious reason of the possibility of being short-changed by their officials, while officials also prefer to give out loans to demonstrate their transparency and also not to be held responsible in case of any problem in the process of building construction, or shortly after handover of building. However some officials believed that individual members would be satisfied if the project is personally handled even though the quality and cost might be lower and more expensive than when the society handled the task.

Housing loans to members

Apart from making serviceable plots available to individual members, the most popular approach to housing delivery by the co-operative societies is the granting of housing loans which the members used as they desired. Result of analysis show that, the co-operative societies altogether have granted loans of about 146 million Naira (US\$ 973,334) to members between 2002 and 2012. House building formed the primary and most common purpose for loan applications by

members. The pattern however varied among the three cities as shown in Table 5.

Table 5 shows that in the last ten years (2002 to 2012), most of the societies (60.6%) granted between N500,000 to N900,000 (\$3,334.00 to \$600,000), while another significant proportion (31.5%) gave out between (N100,000 to N400,000) or (US \$ 667 to 2,667). The above suggests that the potential of the societies lies in granting as many loans, to as many deserving members as possible. Thus if given further empowerment many more deserving members would benefit. Also it is observed that most of the beneficiaries are low and middle income earners, since the amount of loan obtainable is a function of their savings. Thus it is suggested here that the co-operative societies may be the avenue for reaching out to the low and middle income earners in any sustainable housing development programmes in the country.

Pattern of usage of loans granted to members

Results of field data analysis also revealed that co-operative members utilised the loans obtained from the societies primarily for housing and related purposes. Many of them obtained loans to embark on building houses on an instalment basis. Table 6 (page 70) shows the result of the study across the three study areas which revealed what the co-operators utilised the loans to achieve various stages of building construction that range from purchase of land (14.9%), getting building plan approval from the Planning Authorities (14.9%), to completion of the whole building (4.3%). With an X² of 0.002, there is observed, statistically significant variations among cities with respect to the pattern of loan usage, implying that the obtained loan was used by co-operative members for any aspect of the building, depending on the stage of construction at the time the loan was obtained.

It was also gathered from the research, that generally, the duration for loan payback in the societies ranged between 6 and 12 months, with a simple interest rate of 7.5%, which members rightly considered relatively cheaper than that charged by the commercial banks. Virtually all the societies (97.5%) reported high levels of

Table 5: VARIATIONS IN THE AMOUNT OF LOANS GRANTED TO MEMBERS

City	N100,000-400,000	%	N500,000-900,000	%	N1m-1.4m	%	N1.5m-2m%	%	Total	%
Oyo	42	48.6	42	48.6	3	3.4	0	0	87	100
Ogbomoso	5	5.7	79	82.9	3	8.6	3	2.9	95	100
Ibadan	33	45.5	33	45.5	6	8.3	0	0	72	100
Total	80	31.5	154	60.6	17	6.7	3	1.2	254	100

Source: Authors Field Survey, 2012, US \$ 1 = N150.00

commitment and loyalty among the members with respect to loan repayment to their respective societies. Nevertheless, in case of default, offenders are usually referred to an arbitration panel, as provided for in the co-operative by law. One of the powers of the arbitration court includes confiscating or auctioning the property of any recalcitrant loan defaulter. As much as possible, members usually avoided loan defaulting because its penalty may deprive them of several opportunities open to loyal members of the society.

Further results show that during the ten year survey period (2002 to 2012), while a total of 1,938 houses (161.5 annually) were built by the members in the study area, 40.5% or 785 were built by members in Ogbomoso. The corresponding figures for Ibadan and Oyo town were 29.1% or 564 and 30.4%, or 589 respectively. Although the number of housing units added to the stock of existing units in the study area, co-operative efforts may be considered low, this can however be

improved upon if co-operative societies are further empowered financially to provide more loans to current members and if new members are encouraged to join or form new co-operative societies.

Direct building construction

Although Reis (1995) reported that two co-operative societies in Ibadan, the Ibadan co-operative Thrift and Credit Union (C.T.C.U) and the Owolowo Union, with varied membership size facilitated house ownership for members through construction of blocks of flats which were then allocated to members at subsidised rates, the findings of this study shows that only co-operative societies in Oyo town were largely involved in direct housing construction, mainly for residential/commercial purposes which is also made available for members and interested public at annual rental charges. The characteristics of building projects and their locations in Oyo town are as shown in Table 7 (p.71).

Table 6: PATTERN OF USAGE OF LOANS GRANTED TO MEMBERS

City	Purchase and Survey of land	Produce and approve building plan	Foundation wall /dpc	Walls up to window base	Wall beyond window/door /lintels	Complete wall /roofing	Roofing	Ceiling /finishes	Whole bldg	Total
Oyo	15 (17.3)	15 (17.3)	13 (13.5)	27 (30.8)	3 (3.8)	3 (3.8)	1 (1.9)	7 (7.7)	3 (3.8)	87(100)
Ogbomoso	17 (18.3)	16 (16.7)	13 (13.3)	15 (16.7)	8 (8.3)	11 (11.7)	0 (0)	13 (13.3)	2 (1.7)	95(100)
Ibadan	6 (6.3)	7 (10.4)	3 (4.2)	7 (10.4)	3 (4.2)	14 (20.8)	2 (2.1)	24 (33.3)	6 (8.3)	72(100)
Total	38 (14.9)	38 (14.9)	29 (11.4)	49 (19.3)	14 (5.5)	28 (11.0)	3 (1.2)	44 (17.3)	11 (4.3)	254(100)

X² = 0.002

Table 7: CO-OPERATIVE BUILDING PROJECTS AND THEIR LOCATIONS IN OYO TOWN

S/N	Name of the Society/Union	Type of Structure & Facilities	Location
1.	Oyo CTCU Ltd	1 Single storey building with management/ administrative offices, open office for staff, hall and three bedroom flats.	Opposite Oranyan Grammar School, Saabo, Oyo.
2.	Isale-Oyo (Oyo) Ifedapo CICU Ltd	A storey building for administration, with halls, administrative offices for Executive Committee, Manager Staff and toilet. Two-storey building for commercial purpose i.e. rentage for office accommodation.	Oke-Oroki Area, Isale Oyo, Oyo. Owode, along Ibadan-Oyo Expressway, Owode, Oyo.
3.	Isale-Oyo (Owokoniran) CICU Ltd	Two-storey building. Its ground floor consists of a store and management administrative office; second floor, residential rooms, hall and executive committee office.	Oke-Oroki, Erelu Road, Oyo
4.	Agunpopo (Oyo) Owokoniran CICU Ltd	Two-storey buildings which consists of ground floor having stores, rooms. The 1st floor consists of rooms for residential and the second floor has hall and administrative office facilities.	Agunpopo Idi-Ose/Yidi Area, Agunpopo, Oyo.
5.	Isale-Oyo (Oyo) Ifelaju CICU Ltd	Four-bedroomed, residential bungalow with an underground part as a result of land topography, a hall and an administrative office.	Awumoro area, along Erelu Road, Oyo.
6.	Oyo Oyotoro CICU Ltd	A storey building with a store, administrative offices and hall facilities.	Ajgunle market, Ajgunle Oyo.
7.	Basorun (Oyo) Ifelagba CICS	A decking building consisting of a hall..	Behind former Atiba Local Govt Sretariat, Oke-Ebo, Oyo.
8.	Oyo (Oyo) Oyogbemi CICI Ltd	A bungalow house consisting of a hall and administrative offices.	Behind Oyo East Local Govt Secretariat, Kosobo, Oyo.
9.	Oyo East, West, Atiba and Afijio Local Govt Staff CICS Ltd.	An administrative block for cooperative administration, which housed book keepers offices, committee room, waiting hall and toilet.	Within each Local Govt Secretariat.
10.	Isale-Oyo (Oyo) Morning Star Men CTCS Ltd	Two-storey buildings of three bedrooms up and down. The building is for commercial purposes. They embark on residential building developments for the same purpose.	Niresa, Saabo Area, Oyo.
11.	Oyo Imole Ayo CICU Ltd	A bungalow building, administrative office, open office for staff and a big hall for meetings.	Eleka Road, Saabo Oyo.
12.	Ilora (Oyo) CICU Ltd	A storey building with administrative office, open office hall, store and halls for meetings.	Oke-Isanmi Area, Ilora.
13.	Ilora (Oyo) Owolagba CICU Ltd	A decking building consisting of a hall and three-bedroom flat. The hall has two administrative rooms.	Oke-Isanmi Area, Ilora.

Source: Authors Field Survey, 2012, US \$ 1 = N150.00

Determinants of Housing Delivery by Co-operative Societies

The ability of co-operative societies to facilitate housing delivery to members is a function of many factors that include membership size, which directly affects the amount of funds available (through savings and development levies) for disbursement, as well as the number of applicants seeking loans. Perhaps more fundamental, is the capital base of the societies as this eventually determines the number and amount given to

would-be beneficiaries of loans. The relative importance of factors that determine the number of housing loan beneficiaries in the three cities are examined here using multiple regression analysis. The variables involved are the membership size of the co-operative societies (X1) and capital base of the societies (X2) which both constitute the independent variables while the number of loan beneficiaries in the towns (Y) is the dependent variable. The result of regression analysis is as shown in Tables (below) 8a, 8b and 8c.

Table 8a: MODEL SUMMARYB.

Model	R	R Square	Adjusted Square	Std. Error of the Estimate
1	0.359a	0.129	0.082	0.46975

a. Predictors: (Constant), Membership size, Capital Base.

Table 8b: ANOVAb.

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	1.210	2	0.605	2.742	0.078a
Residual	8.165	37	0.221		
Total	9.375	39			

Table 8c: REGRESSION COEFFICIENTS

Model	Unstandardised Coefficients		Std. Error		
	B	Std. Error	Beta	T	Sig.
1 (Constant).	0.863	0.397		2.174	0.036
Capital Base	0.315	0.150	0.324	2.100	0.043
Total	0.067	0.084	0.124	0.806	0.425

The results of the regression model reveal that while the coefficient of joint correlation R between the number of loan beneficiaries and independent variables (membership size and capital base) is 0.359, the coefficient of determination R² is 0.129. This implies that only 12.9% of the number of loan beneficiaries may be attributable to the capital base of the co-operative societies and their membership size. With an F ratio of 2.742 and P value of 0.078, the observed relationship is, however not statistically significant at 95% confidence level.

This means that there are other factors that could be responsible for the determination of the number of loan beneficiaries apart from the capital base of the co-operative societies and their membership size. These extraneous factors may include the amount to be invested, which at any point in time may be made to be high, since this would bring in higher dividends to the societies than housing loan which yields lower return rates. Other factors that bring higher dividends include household income, ability to repay loans promptly and others such as inter-personal relationship of the would-be beneficiaries with the officials, particularly when the available capital is not sufficient for the loan applicants. There is need for further research on the relative importance of other determinant factors. Calibrating the regression model $y = a + b_1x_1 + b_2x_2 + e$, where y = the linear composite of the number of beneficiaries and X₁ and X₂ = capital base and membership size of the societies respectively, $Y = 0.863 + 0.315 (\text{capital base}) + 0.067 (\text{membership size}) + e$. This implies that, if all other things are kept constant, a unit increase in the capital base will produce a 0.315 fold increase (that is, about 32%) in the number of loan beneficiaries. The need to reinvigorate the capital base of the societies, so as to enhance their capacity for housing delivery in the study area, is a major observation.

Recommendations and Conclusion

The co-operative approach to housing provision provides a framework for aggregating demand, as well as a systematic approach to housing finance, land acquisition and incremental building development, particularly among low and middle income earners. For the country to meet the basic needs and aspirations of its citizens there is need

for an organised self-help where individuals in low socio-economic group are encouraged to pull resources with others so as to provide for themselves and family members decent housing at relatively cheap rates. A co-operative society is a major means to achieving the goal of house ownership and for sustainable housing provision in the country.

Through the co-operative societies, many people have been assisted to become home-owners, and this has gone a long way in solving the problem of housing especially among urban dwellers. Though all the co-operative societies in the study areas identified finance as a major constraint, their relevance is still indispensable to the socio-economic needs of the people. If supported to mobilise funds at affordable rates, co-operative societies can support the yearnings of the government on 'housing-for-all' as they contribute significantly to solving the problem of housing shortage among the low income earners and also improve the quality of life of many Nigerian citizens.

A major observation in this study is the fact that no co-operative society in the study areas is in partnership with any financial institution to provide the much needed financial empowerment to people for sustainable housing delivery.

It is therefore suggested that:

- All the existing, registered co-operative societies in the State should be empowered by the government to have access to mortgage funds of the Federal Government through the Co-operative Federation in the State in order to further assist needy citizens in housing delivery.
- More investment opportunities need to be incorporated into the functions of the co-operative societies so as to increase their revenue base.
- The sites of various housing schemes owned by the co-operative societies in Oyo State should be assisted with the provision of necessary facilities such as roads and electricity in order to facilitate development for the members. To this end, professional

town planners should be adequately involved in the monitoring of physical developments in such schemes and planning of new ones, so that impacts of good planning can be felt by all the societies state-wide.

Another observation is that, while in different parts of the world, land may belong to the co-operatives and houses or flats and apartments may be co-operatively owned (cooperative ownership), with each resident or resident household having membership in the housing co-operative and sharing from the accruing profits (Sazama 1996, 2000, Carlson, 2004), in Nigeria, this type of co-operative ownership of land and residential buildings is not common and will not receive the support of the citizens for the following reasons.

- (1) Absence of “allodial” ownership of houses. As products of one of the major socio-cultural and ethnic constituents of Nigeria nation, we observe that the cultural perspective of property ownership shows that collective ownership of land and houses, as is understood in co-operative housing, does not confer on the individual “allodial” ownership, a concept that implies an absolute right or freedom to decide on the management, particularly the outright sale, transfer, or sharing of whole or part of the said property at will, without consultation with or approval of, any person or persons. From this stand point, co-operative property belongs to the co-operative society and not to any individual in an allodial sense. The goal of every Nigerian with respect to property ownership, is absolute and independent ownership of houses, including in particular the land on which the building stands.
- (2) Individual ownership of land and houses is a cultural goal and an expression of sense of achievement. It is a physical manifestation of the level of success of not only an individual in society, but also that of his/her ethnic nationality in their various socio-

cultural and geo-political units. Any policy or programme to assist the poor in the area of house ownership must be geared towards the individual or “allodial” ownership housing.

Consequently, for it to succeed, any co-operative housing programme in Nigeria must ensure the conferment of ownership rights and privileges to members, who would prefer to be proud owners or landlords of their lands and houses, no matter how small the size of plot or indecent and dehumanising the structure is. The above reasons explains why in most cases, co-operative societies in Nigeria generally assisted individual co-operative members through loans to own the land (in an “allodial sense”) and to build their own houses according to the individual’s architectural taste (as landlord, general term used for house owners).

It is perhaps in order to own land and houses “allodially” that the peri-urban areas have become the destination of co-operative societies and individuals for the purchase of land to members at affordable prices and also haphazard construction of buildings by individuals. The influx of developers into the peri-urban areas have created peri-urban morphology characterised by tragic building design, proliferation of temporary structures, with poor or outright lack of basic facilities and services. Nevertheless housing in the peri-urban area represents the physical expression of the fulfilment of lifetime and socio-culturally approved goal for the average citizen. More importantly, from the scientific point of view is the fact that, the peri-urban is a fertile ground for research into housing finance mechanisms. Such studies should reveal the relative importance of different sources of finance, in particular, the pride of place that co-operative societies in Nigeria will occupy.

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Are Co-operative Principles Reflected in Performance Reporting? A Case Study of Insurance Co-operatives

Daphne Rixon, PhD, FCMA

Abstract

The purpose of this paper is to investigate the role of the seven co-operative principles in the management of insurance co-operatives. In particular, the paper examines the operationalization of the principles as reflected in key performance indicators (KPIs) provided in annual reports and other publicly available documents. While earlier studies (Birchall, 2005; Brown and Hicks, 2007; and Novkovic, 2006), found little evidence of the seven principles in co-operative reporting, it is timely to revisit this subject in the context of the 2008 economic downturn which significantly impacted the financial services sector. It could be argued the recent level of public dissatisfaction with investor owned companies (IOCs) presents an ideal opportunity for insurance co-operatives to demonstrate their co-operative difference, particularly with respect to how the seven principles are incorporated into strategic plans and related KPIs.

The paper uses a case study approach to examine performance reporting of two major insurance co-operatives in North America and one in Europe. The three focal organizations are among the largest in each of their respective countries. The case study includes a documentary review of the KPIs published by the three co-operatives and semi-structured interviews with 22 members of senior management (managers, directors and vice-presidents) of the focal co-operatives.

The research found the principles were not prominently featured in co-operatives' reporting, but that some of the KPIs and narrative commentary indirectly reflect the principles. Respondents indicated the principles provide a source of guidance for their corporate culture. Lack of direct reporting does not necessarily

signal the demise of the principles or mean that they are irrelevant. Since the principles were developed as guidelines only, it could be argued they are sufficiently fulfilling their role by informing or influencing corporate culture.

Key Words

Co-operative principles, insurance co-operatives, key performance indicators

Introduction

Co-operative principles and values have evolved since their introduction in 1844 (ICA, 2011a) with the most recent revision taking place in 1995. This revision was designed to establish co-operatives' credibility and viability as business organizations, to maintain an active membership, to restrain the power of managers and to identify their distinct role and purpose (Laidlaw, 1980). The development, revision and interpretation of co-operative principles are the key purposes of the International Co-operative Alliance (ICA) (Birchall, 2005). According to Birchall, in the ten years following these revisions, the focus was expected to be on making the values and principles known. Birchall anticipated that for the ten years after 2005 the emphasis would be on the operationalization of the values and principles into co-operative business practices.

The International Co-operative Alliance's (ICA) defines a co-operative as 'an autonomous association of persons united voluntarily to meet their common economic, social and culture needs and aspirations through a jointly owned and democratically controlled enterprise' (ICA, 2011b). The ICA's Statement on the Co-operative Identity includes a definition, values and seven principles by which co-operatives put the values

into practice. The seven principles include 1) voluntary and open membership; 2) democratic member control; 3) member economic participation; 4) autonomy and independence; 5) education, training and information; 6) co-operation among co-operatives; and 7) concern for the community. Co-operatives are based on values of self-help, self-responsibility, democracy, equality, equity and solidarity, and members' belief in honesty, openness, social responsibility and caring for others (ICA, 2011b). The seven principles are not rules; rather, they provide guidance for co-operatives (Birchall, 2005). As Passey (2005) points out, for organizations to be recognized by the ICA, it is necessary to adopt the definition, espouse values and adhere to co-operative principles. That being said, the ICA does not have a policing role.

The main foci and priorities of organizations are generally reflected in the annual report, strategic plans and related key performance indicators (KPIs). Annual reports are generally divided into two sections: the financial statements (usually placed towards the end of the report) and the larger upfront section comprised of non-statutory information (Stanton and Stanton, 2002). Annual reports provide a wide range of summarized information in a single concise document, thereby enabling stakeholders to gain a comprehensive understanding of an organization's objectives and performance in both financial and non-financial terms (Coy et al, 2001). According to Novkovic (2006), what is measured is also pursued. KPIs are typically used to monitor and measure an organization's performance and progress towards achieving its strategic plan.

The purpose of this paper is to investigate the role of the seven co-operative principles in the management of insurance co-operatives. In particular, the paper examines the operationalization of the principles as reflected in KPIs provided in annual reports and other publicly available documents. Given the prominence of the seven principles, it is beneficial to investigate the role played by these principles in co-operatives as measured through key performance indicators (KPIs) in their annual reports, as well as performance and sustainability reports and websites.

While earlier studies (Birchall, 2005; Brown and Hicks, 2007; and Novkovic, 2006), found little evidence of the seven principles in co-operative reporting, it is timely to revisit this subject in the context of the 2008 economic downturn which significantly impacted the financial services sector. It could be argued the recent level of public dissatisfaction with investor owned companies (IOCs) presents an ideal opportunity for insurance co-operatives to demonstrate their co-operative difference, particularly with respect to how the seven principles are incorporated into strategic plans and related KPIs.

This research extends the body of literature on co-operative management and non-financial reporting through an in-depth examination of the insurance sector. This paper adds to the literature through its international comparison between North American and European insurance co-operatives' operationalization of the seven principles. Furthermore, there is relatively little literature on the management and application of the principles by insurance co-operatives as reflected through KPI reporting. This co-operative industrial sector was chosen to facilitate a comprehensive analysis through documentary reviews and semi-structured interviews with those involved in developing annual reports and in setting strategic direction. The paper uses a case study approach to examine performance reporting of two major insurance co-operatives in North America and one in Europe.

Prior literature

Several studies have examined financial and non-financial reporting for co-operatives to identify reporting of the co-operative difference. For example, in their paper, Hicks et al (2007a), investigate the nature of the co-operative difference evidenced in member ownership, co-operative purpose, goals and principles. Their study found that due to the duality of democratic and social associations as well as business functions of co-operatives, there was merit in bringing together social and financial reporting as a means of accounting for economic and social goals. Michelson (1994) also argues that co-operatives

have characteristics of for-profit and non-profit organizations due to their social and market-oriented goals. While some co-operatives incorporate the seven principles in the mission statement and include them on their websites, there is minimal reporting of performance in relation to the principles (Brown and Hicks, 2007). Indeed, Brown and Hicks (2007) contend managers, members and employees of co-operatives have difficulty in identifying, operationalizing and measuring co-operative values and principles. This finding is consistent with Spear's (2000) research which found co-operative values are viewed as something separate or extra, resulting in additional costs and placing constraints on freedom. Spear (2000) found co-operative values and principles are not viewed as an integral part of the business.

Ten years after the ICA's major revision, Birchall (2005) examined how the principles had been put into practice. He reviewed how major co-operative industrial sectors incorporated the identity statement, co-operative values and principles. Birchall's study found insurance, pensions, financial services co-operatives and mutuals do not make significant use of the identity statement. While his study found the values are referenced at the international level through the International Cooperative and Mutual Insurance Federation, there is general assimilation of dominant commercial values. With respect to principles there were different traditions; some are not connected to the ICA framework and some very large mutuals did not include a reference to principles. Birchall also identified the co-operative advantages and disadvantages for each of the industrial sectors. For the insurance, pension and mutual sector, he found the main advantage is high return due to the lack of profit taking, high trust, long-term contracts and member benefits. In contrast, the main disadvantages includes neglect of membership which leads to governance issues, dominance by the elite and instrumentalism (lack of a co-operative tradition).

While Birchall (2005) concentrated on how the principles are put into practice, Axelrod (1997) viewed the co-operative principles as similar to behavioral norms, which he defined as patterns of behavior that are observed in certain situations and

when broken result in a sanction for the violators. Passey (2005) suggests the principles may be embedded in organizational behavior as a method for co-operatives to differentiate themselves. Passey also contends the principles may be not reflected in organizational behavior since a co-operative might decide on a strategy based on power in the marketplace rather than social goals or perhaps the co-operative has limited resources to devote to complying with the principles.

Birchall (2005) concludes that for the principles to have an impact, people must become aware of the co-operative difference. One Canadian study found 60% of respondents believed their co-operative contributed to the community in a way that differed from the contributions of for profit enterprises (Philp, 2004). However, the same respondents were unable to specifically identify the uniqueness of their co-operative (Philp, 2004). Perhaps this dilemma is best explained by Fairbairn (2004) who contends few people have the vocabulary to describe the difference. In other words, there is comprehension of the difference between co-operatives and investor owned companies (IOCs), but there is difficulty in describing it. Despite these findings, Birchall (2005) and Cote (2000) contend the principles are expected to be used increasingly as a framework for evaluation, for determining the co-operative bottom line and for measuring the promises of co-operatives against their performance. These authors believe it is essential to operationalize the principles in order to fully demonstrate the co-operative difference.

As discussed in the introduction, the co-operative identity is embodied in values and principles. In his study, Birchall (2005) describes co-operative practices that reflect the seven principles, as illustrated in Table 1.

While several studies have examined the co-operative principles and the co-operative difference (Hicks et al, 2007; Brown and Hicks 2007; Laidlaw, 1980; Birchall, 1998, , 2005; Birchall and Simmons, 2004; Philp, 2004; Spear, 2000; and Cote, 2001) with the exception of (Cote, 2003, Gertler, 2001; Novkovic, 2004, Novkovic and Power, 2005) who emphasized the importance of co-operatives basing

Table 1: CO-OPERATIVE PRINCIPLES AND PRACTICES

Principles	Co-operative Practices
Voluntary and open membership	Member recruitment strategy
Democratic member control	Director education and training
Member economic participation	Dividend cards
Autonomy and independence	Internal capital raising
Education, training and information	Marketing the co-operative difference
Co-operation among co-operatives	Support for federation and shared services co-operative
Concern for community	Community dividend

Source: adapted from Birchall (2005)

governance and management on co-operative principles and values, there is limited research on the measurement of operationalization of the principles into practice.

This paper examines if insurance co-operatives are differentiating themselves from for-profit companies as a way to mitigate the negative image associated with the financial services sector and taking advantage of their broader focus beyond profit maximization. This could also potentially increase their business by emphasizing the difference between co-operatives and IOCs. Co-operative differences are expected to be reflected in the strategic plans and related KPIs. One way to assess evidence of operationalization of principles in everyday business is to investigate the extent to which compliance to the principles is reported in the annual or performance reports. Presumably, if the principles are incorporated into the strategic plan, co-operatives would have developed KPIs to evaluate performance on these goals and objectives.

Methodology

The methodology for this research is comprised of a case study of two insurance co-operatives in North America and one in Europe. The three focal organizations are among the largest in each of their respective countries. The case study includes a documentary review of the KPIs published by the

three co-operatives and semi-structured interviews. The documentary review establishes if the seven principles are reflected in co-operatives' reporting. The semi-structured interviews are employed to discern from senior co-operative officials the role of the principles in strategic plans and in performance and annual reports.

The purpose of the documentary review is to identify the extent to which the seven principles have been operationalized as evidenced through KPI reporting. While most of the principles are expected to be included in data sections of annual reports, it is possible that information concerning the co-operative principles might be included in the notes to the financial statements, management discussion and analysis (MD&A), CEO and Board Chair letters in the annual report and in website information. In their study, Hicks et al (2007b) extended the Hyndman et al's (2002 and 2004) approach to content analysis of financial statements to include the seven principles.

This paper uses the categories developed by Hicks et al (2007b), as identified in Table 2, and extends this methodology to MD&A, annual report letters from the CEO and Board Chair and website information.

To gain a better understanding of the information published in annual reports, in-depth face-to-face semi-structured interviews were held with 22

Table 2: CO-OPERATIVE PRINCIPLES AS REFLECTED IN FINANCIAL STATEMENTS AND RELATED NOTES

Financial statement category	Rationale
Nature of operations	This section is typically used to describe the organizational form and type of activity pursued by the business
Member shares	These categories were included because they could reflect member ownership, control and benefit, and co-operation among co-operatives
Patronage dividends	
Economic dependence	
Related party	
Education	This reflects the principle of education, training and information
Links with co-operatives	This category is intended to reflect co-operation among co-operatives
Donations	These three categories correlate with concern for community
Volunteers	
Social and environmental	

Source: Hicks et al (2007b)

members of senior management (managers, directors and vice-presidents) of the focal co-operatives. It was necessary to conduct interviews with multiple representatives from each co-operative since several departments contributed to the reports and were responsible to report on various aspects of the co-operatives' operations. Interviews were audio taped, transcribed and coded using NVivo software. Interviews were one to two hours in duration and occurred during May, June and July, 2010 at the worksites of the respondents. Responses are country coded as North America (NA) and Europe (EP).

Case studies are defined as a multi-faceted research strategy which typically involves an in-depth examination of one organization, situation or community (Yin, 1994). Furthermore, face-to-face surveys are useful to examine complex issues, allow for maximum degree of probing, yield a better response rate, provide flexibility over question content and facilitate clarification of questions and terminology (Singleton and Straits, 2002). This methodology results in richer and more in-depth

information than could be derived solely from a survey of a statistical sample of the population at large. The methodological approach can be described as holistic investigations which generate both quantitative and qualitative data from archival material, interviews, surveys and observations (Hill, 1993). While case studies yield greater realism than quantitative methodologies, it must be recognized that they are time consuming, their findings cannot be generalized and their lack of rigorous control compromises validity (Bennett, 1991; Hill, 1993). Although all the disadvantages cannot be mitigated, a case study is the most appropriate for this research due to the complex nature of the research questions and the need to solicit in-depth feedback from a small number of respondents.

Findings: discussion and analysis

Documentary review

Table 3 (page 82) provides a comparative summary of the KPIs and other information publicly reported by the two insurance co-operatives in North

America and one in Europe. This information was derived from the documentary review of websites, annual reports including MD&A and letters from the CEO and Board Chair, performance reports, financial statements and related notes. Information provided in narrative format that reflects the seven principles, but not quantified by a KPI, is identified as such within Table 3. KPIs and discussion of initiatives and practices reflecting co-operative principles have been grouped under each principle, using as guidelines the ICA's definitions and practices identified by Birchall (2005) in Table 1 along with categories used by Hicks et al, (2007b,) as reported in Table 2. As illustrated in Table 3, all seven principles were reported on to varying degrees. However, none of the principles were featured prominently in the annual reports and none reflect significant evidence of a linkage to the principles.

KPIs in Table 3 were derived from a broad array of locations throughout the documents. Furthermore, unlike Hicks et al's (2007b) findings, very few principles are reflected in the notes to the financial statements. This might be attributed to the nature of practice within the insurance industry because organizations tend to adopt reporting styles of their industry. Indeed, insurance co-operatives' reporting very much reflect that of IOCs.

It should be noted that while the ICA provided definitions for each of the principles, they did not include a requirement for operationalizing the principles as reflected through KPIs. However, it is interesting to note the British industry association of co-operatives, Co-operativesUK, developed a set of measures accompanied by definitions and examples. This information could be utilized by co-operatives in other jurisdictions to develop KPIs and industry benchmarks.

Voluntary and Open Membership: Measures reflecting the voluntary and open membership principle includes the categories of gender, age and ethnicity of members as well as member satisfaction. Of the 6 measures correlating to the principles, four include KPIs and two are in commentary format only. North America includes two commentary items, but no KPIs that fit the voluntary and open

membership principle. Only the European insurance co-operative provides KPIs related to this principle. One North American co-operative's website describes its customer advocacy department, which ensures policyholders are provided with opportunities to raise concerns when they find the service or the coverage does not meet their needs.

Democratic Member Control: Three KPIs and one commentary item reflect this principle, with Europe publishing data on democratically active members, committee elections and total number of members. In addition, one North American's website includes a major section on its governance process which plays a role in ensuring democratic member control.

Member Economic Participations: Three KPIs correlate with this principle. North American and European co-operatives report on members earning a share of the profits/dividends. One North American co-operative reports the dollar value of claims paid to policyholders, which could be considered a form of economic participation. Finally, another North American co-operative provides the number of preferred and common shares which could convey to the reader information on the scope of economic participation.

Autonomy and Independence: This principle is broadly defined by the ICA and describes how any agreement with other organizations should ensure democratic control and autonomy. Two measures are in commentary format while stand against management was quantified as the percentage of time the Board of Directors did not approve management recommendations. This information is included in the Chair's letter in the annual report. The European report also discusses board of director independence. Finally, one North American website discusses the importance of transparency in financial reporting. This could be considered to support autonomy and independence, as well as economic participation, since financial viability is vital.

Education, Training and Information: There are no KPIs reported for education, training and information; rather, all information is in a narrative format with two reported by Europe and one by North America. The European co-operative includes

Table 3: SEVEN PRINCIPALS REPORTED BY INSURANCE COOPERATIVES

Principles	North America	Europe	Number	%
1. Voluntary and Open Membership			6	18.2%
Elected female members		X		
Average age of members		X		
Ethnic minority		X		
Member satisfaction		X		
Partnering for outreach to minorities	X*			
Customer Advocacy	X*			
2. Democratic Member Control			4	12.1%
Democratically active		X		
Committee elections		X		
Total number of members	X	X		
Corporate governance	X*			
3. Member Economic Participation			3	9.1%
Members earning share of profits/dividends paid	X	X		
Claims paid to policyholders	X			
Number/value preferred and common shares	X			
4. Autonomy and Independence			3	9.1%
Stand against management		X		
Board of directors' independence		X*		
Transparency in financial reporting	X*			
5. Education, Training and Information			3	9.1%
Young people's school programs		X*		
Education for Board of Directors		X*		
Safety tips	X*			
6. Cooperation among Cooperatives			4	12.1%
Affinity partnerships (list)	X*			
Co-operation/support among co-operatives		X*		
Related party transactions	X*			
Insurance provided to other co-ops and credit unions	X*			
7. Concern for Community			10	30.3%
Community investment	X	X		
Percentage of pre-tax profits donated	X	X		
Staff volunteerism	X	X		
Tonnes of CO2	X* & X	X		
Energy used	X	X		
Renewable energy used		X		
Total mileage	X	X		
Waste recycled	X*	X		
Unethical business declined		X		
Environmental award	X*			
Total			33	100%

*Quantifiable data not provided; rather, commentary reflecting co-operative principles was identified

a description of its program for school children as well as education for its board of directors, while one North American co-operative highlights safety tips on driving, home and business. These discussion items reflect the ICA's definition. It should be noted that Birchall (2005) also includes the practice of marketing the co-operative difference as a form of education, training and information. Therefore, following Birchall's example, the inclusion of marketing costs could be considered. However, this information is not available as a separate line item in the financial statements for any of the three co-operatives. Webb, 1998 and Webb et al, 2005 found that the majority of respondents did not spend resources on marketing the co-operative difference.

Co-operation among Co-operatives: There are no KPIs that correlate with this principle, but four topics are discussed in the narrative sections of annual reports that could fit this category. As depicted in Table 3, Europe reports one measure while North America provides three measures. One North American co-operative provides a list of affinity partnerships in its annual report, some of which include mutuals and co-operatives. This list could be considered an indirect form of co-operation among co-operatives. Novkovic (2006) contends that memberships in trade associations are superficial. The European co-operative discusses co-operation and support for other co-operatives in the sustainability section of the annual report, while one North American's MD&A discussed its provision of insurance to other co-operatives and credit unions.

Concern for Community: This category has the most extensive reporting. Concern for community is reflected in two major groups of KPIs: community investment through donations/volunteerism and environmental measures. As illustrated in Table 3, of the 10 categories, there are seven reported in common by North America and Europe. All co-operatives report on community investment and staff volunteerism and percentage of pre-tax profits donated. With respect to environmental indicators, North American and European co-operatives report tonnes of CO₂ and energy used along with total mileage, while only the European co-operative reports renewable energy used. Both North American and European co-operatives discussed the amount of

waste recycled. In addition, one North American co-operative describes an environmental award it had been given. Finally, Europe discloses the dollar value of unethical business declined. Most of the information provided under concern for community is comprised of quantifiable KPIs. Only one North American co-operative includes a narrative commentary on tonnes of CO₂ and waste recycled. This is somewhat surprising since this type of data is relatively easy to track and report. As Novkovic (2006) and Birchall (2005) point out, it is difficult to differentiate between IOCs and co-operatives with respect to concern for the community since many businesses invest part of the profits in the community.

Overall, as illustrated in Table 3, certain aspects of co-operative principles are indirectly, but not explicitly, reflected in reporting by all three insurance co-operatives. There are 33 KPIs or narrative commentary items that correlate with the seven principles. There are nine KPIs reported in common by North American and European co-operatives and seven of the nine relate to concern for community. As depicted in Table 3, by far the greatest number of KPI and narrative commentary relates to concern for community: 10 categories (30.3%). The second highest reporting area relates to voluntary and open membership: 6 categories (18.2%). The remaining measures are spread fairly evenly across the other five principles.

The European co-operative reports 22 KPIs or narrative discussions of the seven principles in comparison to 20 for North America. Of the 22 categories reported by Europe, 18 are comprised of KPIs and are featured in various sections of the annual report. The remaining four items include Board of Director independence, school education on co-operatives, Board of Director education and co-operation among co-operatives and are included in the narrative sections of the annual report, sustainability report and corporate governance report. Of the 20 categories reported by North America, 10 are quantifiable KPIs while 10 are in narrative format. Other KPIs are located in the MD&A section of the annual report. Furthermore, the website information is not prominently displayed for readers since some information reflecting the principles is located in the 'about us' section at the bottom of the website page.

Of the 10 measures related to concern for community, six focus on the environment while the remaining four report community investment, donations, volunteerism and ethics. It is noteworthy that environmental reporting exceeds all other principles and tied with voluntary and open membership. Perhaps, co-operatives are following the trends of IOCs in demonstrating environmental responsibility to their stakeholders. Alternatively, it is possible that environmental responsibility is one of the areas where the co-operatives can easily display their concern for community.

KPIs and narrative commentary are not prominently reported as measurement of performance in relation to the seven principles. Indeed, most measures did not identify with a

principle. Rather, it was this research methodology that categorizes the KPIs and narrative as correlating with the principles. It could be argued those KPIs correlating but not specifically referencing the principles might be considered an indirect type of reporting. In contrast if they are reported on as co-operative principles featured more prominently in annual reports, they could be considered to be a more direct form of reporting.

An interesting finding from this study relates to the significant number of KPI's which focus on insurance industry factors, as shown in Table 4. These KPIs reflect the financial nature of the insurance industry and the regulatory environment in which they operate.

Table 4: FINANCIAL KPIS REPORTED BY THE US, UK AND CANADIAN CO-OPERATIVES

KPI	Description
Gross Written Premium	Component of revenue which represents the total insurance sales transactions
Return on equity	Ratio of net income to the average of opening and closing shareholders' equity excluding accumulated other comprehensive income
Combined ratio	Ratio of total expenses to net earned premium, expressed as a percentage.
Loss ratio	Ratio of claims and adjustment expenses to net earned premium, expressed as a percentage
Expense ratio	Ratio of the total premium and other taxes, commissions and agent compensation and general expenses to net earned premium, expressed as a percentage
Claims development	Difference between any prior estimates in the claims costs and the claims costs actually paid on closed claims, plus any change in estimates for claims still open or unreported.
Minimum capital test	Regulatory formula-driven, risk based test of capital available over capital required (by government regulation)
Dividend coverage ratio	Measure of a company's liability to pay dividends due to its shareholders out of its current year earnings. It is calculated as a net income divided by dividends declared
Return on capital	Ratio of net income of a business segment to the average of opening and closing required capital

Perhaps the nature of insurance co-operatives as a segment of the financial services industry necessitates more attention be paid to the financial and regulatory KPIs than for co-operative principles. Indeed, the strategic plans of all three co-operatives place considerable emphasis on financial strength. Clearly, financial viability is critical in order for an insurance co-operative to continue operations and serve its members.

The research found insurance co-operatives' reporting did not place a high degree of emphasis on the co-operative difference. Given the 2008 turmoil in the insurance industry, it is surprising insurance co-operatives are not making more of an effort to distinguish themselves from for-profit/investor owned insurance companies. From a marketing perspective, this difference might be viewed as a competitive advantage (Birchall 2005). The European co-operative is the most explicit in highlighting the co-operative difference. The European annual report states it promotes co-operative principles and values, but the principles are not listed. However, the Board chair's letter states their vision reflects the co-operative difference, but again does not elaborate on what exactly constitutes this difference. Similarly, one North American's annual report letter from the CEO refers to its co-operative history, but does not provide details or examples. Meanwhile, the other North American co-operative does not specifically mention the co-operative difference, but provides a description of the business and ownership structure.

Difficulty and costs associated with gathering, monitoring and measuring data are often cited as reasons for the lack of reporting. However, this is not the case with the three insurance co-operatives in this study. Since the focal organizations are all very large co-operatives with sophisticated research and reporting departments, it is feasible for them to provide data in the form of KPIs which could be monitored and measured.

The next sections of the paper analyze the responses of interviewees regarding their co-operatives' lack of KPIs that directly measure and report on how the seven principles have been operationalized.

In-depth Face-to-Face Interviews

During the semi-structured interviews, respondents were asked why the seven principles did not figure more prominently in their annual reports. All respondents indicated they did not try to explicitly link them to the principles. However, as one of the respondents was considering this question, he went on to try to make connections between their objectives and the principles. In all three co-operatives, the KPIs reported were chosen to support their strategic plans and to meet regulatory requirements. Respondents indicated the seven principles are part of their organizational culture and one believed that they are not well understood throughout the organization. This reflects Passey's (2005) findings that principles are embedded in organizational behavior. Interviewee responses imply that while the seven principles are not explicitly monitored, measured and reported, they nevertheless play an important role in their respective organizations' values and culture.

"...it forms part of our values....we don't have a specific section in our strategic plan that would tie back to each one of those. If you look at the seven principles, they're more behavioral." (NA1).

"If you look at the values and statement of co-operative identity, you'll find things like concern for community...from our perspective that's the overall direction and underlying principles....we even have it built into our bylaws, its sets out the framework of our organization." (NA2)

"...the seven principles are really what guide the organizations in terms of culture" (NA3)

One European respondent stated that although the seven principles were not top of mind, their Balanced Scorecard is based on co-operative values. He gave the following example:

"....there's one around commercial success and there's one around customers, and membership, which has got some of the co-operative values in it. And then there's something around social goals, how we treat

our employees....and corporate reputation, which covers leadership in terms of environmental issues, ethical issues.” (EP1).

Another European respondent believed there were linkages that indirectly informed the KPI’s reported:

“...they’ll dictate to some degree, the areas that we’re reporting on....are embedded... they sort of permeate everything that goes on. We have sections on community, membership participation, membership control, member economic involvement and co-operation between co-operatives” (EP2)

In contrast, a North American respondent explained the lack of reporting on the principles:

“...the seven principles are not heavily preached...it’s not part of our nomenclature....but our board understands it’s a cooperative”. (NA4)

An interesting observation from the study is one North American co-operative’s admission they have strayed from their co-operative roots, but are planning to emphasize these roots in the future. They recognized they had not sufficiently differentiated themselves from IOCs and interviewee responses reflect their ongoing efforts to redefine their organization and return it to its co-operative roots. As co-operatives develop strategic plans and balanced scorecards, they naturally consider their mission and vision in terms of why they exist. Therefore, strategic planning exercises could potentially result in more discussion of the co-operative differences as articulated in KPI’s that measure performance.

This research found a marked difference in the reporting of the two North American co-operatives. One did not publicly report, even indirectly, through KPIs in the same manner as the other co-operative. The North American co-operative that had the least emphasis on its co-operative business structure, also indicated that they had moved away from its roots, but they are in the process, as part of their strategic planning, of revitalizing their co-operative roots and what they mean for members and customers. The

respondent indicated that they plan to “explore the kinds of performance measurements that are best suited to help us understand how we’re doing as a co-operative and potentially different kinds of metrics that you might otherwise see in non-cooperative companies” (NA4).

Despite interviewee claims that the principles are reflected in corporate culture, they are not directly reflected in strategic plans as reported in the annual report. It could be argued if the principles are indeed guiding co-operatives’ organizational culture, they would play a greater role by being included in strategic plans. Respondents’ view that the principles are behavioral is shared by Axelrod (1997) and Passey (2005), who contend the principles are embedded in the culture. Conversely, others could argue that co-operative values and principles are viewed as something extra (Spears, 2000) over and above the co-operative goals.

In light of the lack of direct reporting on the principles, one has to question if and how insurance co-operatives differ from for-profit insurance companies. Given the lack of direct reporting on the seven principles, interviewees were asked how they differentiated themselves from ‘for-profit’ insurance companies. Respondents identified the four main differentiating factors: member loyalty, lower cost of capital, sustainability and co-operative roots.

One North American respondent attributed the co-operative difference to the focus of co-operatives on member value rather than shareholder value, meeting the needs of members, curtailing power of management and emphasizing corporate sustainability:

“The owners through the directors become quite involved in the business of the co-operative and that makes us a little different from publicly traded insurance companies. Their objective is to focus on shareholder value, and shareholder value is basically defined by the market. Our objective is to enhance member value, but member value does not just mean an increase in the stock price. It means supporting co-operative principles; it means meeting the needs of our

members. Co-operatives have been resistant to the idea of having management on the Board. The reason is to preserve the independence of the co-operative and not allow them to become management driven organizations. What differentiates us...is not the automobile policy...the competitive difference is how we behave sustainably or corporately responsible and our co-operative roots....we still want to maximize return on equity, but with consideration for other factors, so it's not at all costs, it's not like the only Holy Grail....being a co-operative, you still need to compete head to head with those who aren't and then add something else. We need to have products and services that people need, regardless of whether we're a co-operative. Being a co-operative should be an added benefit". (NA2)

It is also interesting to note that respondents in North America indicated only about 10% of their insurance business is conducted with members, with the remaining 90% comprised of general public customers. Respondents also believed most of their customers are not aware they are a co-operative, but this might be explained by the fact that the majority of North American co-operative business is not conducted with members. Consequently, this might play an important role in explaining why the seven principles do not figure more prominently in insurance co-operatives' reporting.

The research findings show there is virtually no difference between North America and Europe in terms of operationalizing, measuring and reporting on the co-operative principles through KPIs. The main difference between North America and Europe relates to the overall higher volume of quantifiable KPIs reported by Europe. Furthermore, this study found insurance co-operatives did not take advantage of the seven principles to differentiate themselves from IOCs. Given current public dissatisfaction with IOCs in the financial services sector, this would have presented a major opportunity to highlight and market the difference.

The findings of this study are consistent with Fairburn (2004) from the perspective that there is an

awareness of the difference, but differences are not operationalized and articulated through direct monitoring, measuring and reporting through KPIs. Similarly, other studies (Brown and Hicks, 2007 and Spear, 2000), found members, managers and employees had difficulty in identifying, operationalizing and measuring the principles and they were not viewed as an integral part of the business. It seems the principles have not been operationalized as envisioned by Birchall (2005) and consequently as they are not operationalized, they were obviously not measured and reported. Clearly, since 2005 and more surprisingly since 2008, there has been very little progress in operationalizing the principles.

Given the lack of reporting on principles through KPIs or narrative commentary, critics could argue the principles are irrelevant in the operation of co-operatives. What then is the point of having co-operative principles? Granted, they are not rules, but they are considered to be guidelines. Therefore, perhaps it is sufficient for the principles to guide corporate culture but not necessarily be operationalized, monitored and measured, as envisioned by Birchall (2005). Conversely, it could be argued that by not monitoring and measuring the principles, they may eventually lose their profile and awareness among members, managers and employees. Once the awareness of the principles is reduced and they are no longer 'top of mind', it is possible eventually they will no longer even influence the corporate culture.

Conclusions

The objective of this paper was to investigate the extent to which co-operatives in the insurance sector operationalized and reported on the seven principles through KPIs and to ascertain their views on the co-operative difference. The research found the principles were not prominently featured in co-operatives' reporting, but that some of the KPIs and narrative commentary indirectly reflect the principles. Respondents from one North American and one European co-operative indicated the principles provide a source of guidance for their corporate culture. Lack of direct reporting does not necessarily signal the demise of the principles or

mean that they are irrelevant. Since the principles were developed as guidelines only, it could be argued they are sufficiently fulfilling their role by informing or influencing corporate culture.

This study responds to Birchall's (2005) paper which speculates that the 10 years following from 2005 would see the operationalization of the values and principles into business practices. Six years after this prediction there is relatively little evidence indicating this will happen, at least in the insurance sector. While the principles are not operationalized into business practices, it is encouraging to see they appear to be embedded in corporate culture. What remains to be seen is whether this is sufficient to ensure the principles remain relevant in the long-term.

The research adds to the literature on the relevance of the co-operative principles and the co-operative difference. It introduces the concept of indirect measures of the principles. This occurs when commentary and KPIs not specifically identified as one of the principles, could nevertheless be correlated to the principles. The study extends Hyndman's (2002 and 2004) and Browne and Hicks (2007a) content analysis of financial statements and notes to also include other information on websites and narrative sections of the annual report such as MD&A, letters from the CEO and Chair of the board along with corporate responsibility and sustainability reports. This research also illustrates that not even a major economic crisis in the financial services sector resulted in changes to management and reporting that emphasize the co-operative difference.

There is scope for future research to investigate reporting of the principles in other co-operative industrial sectors to determine if the findings of this study are unique to the insurance sector and to investigate if KPIs reflecting the principles have been operationalized and reported by other industrial sectors. Since the research found that only about 10% of insurance co-operatives' business is conducted with members, it would be worthwhile to investigate member composition of the customer base for other co-operative sectors. Such an investigation would be helpful in analyzing whether

the customer base of predominantly members versus non-members has an impact on reporting KPIs reflecting the principles. It would also be beneficial to conduct a survey of co-operative members to ascertain their views on the importance of measuring and reporting on the seven principles as well as on their perceptions of the co-operative difference.

Notes

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Increased Efficiency and Climate Protection in Housing Co-operatives through Residents' Participation

Christin Wemheuer and Gabriele Wendorf

Abstract

The establishment of control criteria in co-operative housing organisations aim at two goals: They want to achieve high residents' satisfaction to prevent turnover and decrease vacancies. As market-oriented, commercial enterprises that aspire to avoid rising costs through high levels of turnover and vacancy they share these goals with other non co-operative housing companies. What distinguishes both types of enterprises is the intention of their action. Co-operatives are characterized by co-operative principles and values. Respectively each member of the co-operative should be enabled and activated to take part in these participative processes. This underlines the potentially important role of internal communication and its implications within the scope of efficient internal coordination. The situation for co-operative housing organisations is unique compared to other co-operatives: Habitation creates specific conditions for internal communication in the co-operative, since people and respective consumption patterns (mobility, energy, leisure time behaviour etc.) interact directly, on a daily basis within the neighbourhood. This holds potential for the benefit of internal communication and in particular for climate protection issues. The following report will discuss these subjects with reference to the results of the socio-scientific research project "Solidarity City - The Roles and Scopes of Co-operatives for Climate Protection".

Keywords

Housing co-operatives, internal communication, participation, climate protection

Introduction

Two main criteria of controlling for housing companies are the cost of turnover and vacancy. Residents' satisfaction is an important factor in preventing the increase of these costs. Due to their co-operative principles and values (e.g. self-help, self-responsibility, equality, equity, solidarity, democratic member control, and economic participation) housing co-operatives should have stronger participative intentions for their members than forms of non-co-operative housing. Each member of the co-operative should be enabled and activated to take part in these participative processes (Rausch 2011: 266f.). As for residents' retention, climate protection can function as a competitive advantage since climate awareness is rising. Climate protection in housing companies is often merely understood as a matter of construction and technology. Thus housing companies often do not recognize that they can implement behaviour-based climate protection measures via communicative methods that promote environmental awareness-raising and may secure competitive advantage.

Increased efficiency through communication and participation

A key assumption driving this research is that through the application of the principle of democracy, members of co-operatives participate in the democratic control of the co-operative, in decision-making-processes, and even in financial interest. Respectively each member should be enabled and activated to take part in these participative processes. For housing co-operatives this cannot solely be implemented through the annual general meeting but needs awareness raising and mobilization processes for the residents in the sense of empowerment (Rausch 2011: 267). However the scientific literature suggests that the principle of democracy is increasingly undermined,

particularly in big co-operatives (Vogt 2011: 30; Keßler 2013). Nevertheless, co-operatives still have a statutory democratic structure which holds specific potential for the participation of residents compared to non-co-operative housing companies. Another assumption driving the research is that residents' participation will enhance residents' satisfaction and thus housing co-operatives can benefit when they use it as a measure for efficient internal coordination and improved control-accountability-mechanisms (reduction of turnover and vacancy-costs).

The research context

The socio-scientific joint research project "Solidarity City - The Roles and Scopes of Co-operatives for Climate Protection" consists of five subprojects and investigated seven co-operatives in different fields (energy, mobility, retail, and housing) regarding their potential for climate-protective action. Within the scope of the project 35 intensive, half-structured interviews were conducted with members of the co-operatives (ordinary members and management). The qualitative data analysis of the interview material was carried out with the ATLAS.ti software. The interview guidelines addressed questions regarding the fields of interpersonal relations in the co-operative, solidarity action, collective identity, climate protection, participation and communication. We will refer to these results and then concentrate on the findings of the sub-project habitation which investigated the potential of housing co-operatives in climate change. (Three of the seven investigated co-operatives were housing co-operatives).

Two research questions were raised. The first research question referred to communication patterns and the development of ideas for behaviour-based climate protection measures. The second research question referred to whether and how participative methods (in particular the Green Folder) can motivate residents to take part in a participation process and change their habits towards climate protective behaviour. Also their willingness to participate in permanent services (e.g. lending products, organizing activities) implemented by the housing co-operative was

detected. To analyze the possibilities of participation, the Green Folder method was carried out with one of the co-operating housing organisations, enabling 600 members to participate.

This instrument was particularly developed for the application in the context of housing companies and the design of measures for residential estates (physical as well as service offers) is the "Green Folder" (Grüne Mappe) developed at the Technische Universität Berlin.

This low-threshold method offers different levels of participation in successive steps and encourages residents to involve themselves in the planning processes. The instrument is unique for each enterprise since it is developed according to the specific demands of the individual case. A crucial success factor is the sound consultation of the housing company in advance, to explore feasible options and topics of the folder to prevent false expectations of participants.

The Green Folder allows responses from different cultural backgrounds and educational levels. Thus it operates in a variety of expressive modes. Residents comment on several topics by marking boxes with preferred options, writing notes, drawing sketches of their ideas, or displaying preferences with prepared stickers. Following the analysis of the results a collective reflection of the results is provided (e.g. exhibition, world-café) where opinions about the pros and cons of different ideas can be exchanged with neighbours and the management. This method has already been applied in cooperation with three different housing companies and has been met with exceedingly positive resonance by altogether more than 600 participants who actively took part in the processes.

Interview results regarding internal communication in co-operatives

The evaluation report of the expert commission "housing co-operatives" underlines the significance of internal communication for housing co-operatives (BMVBS 2010: 10). A larger variety is described: A growing number of co-operatives sample new forms of internal communication that

strengthen the position of the members (Ibid: 56ff, 64). Adequate internal communication can also enhance civil volunteer work in members of housing co-operatives (Jekel 2011: 42ff.). A beneficial internal communication style² will also improve internal coordination and efficiency. It also plays a significant role regarding the development of behaviour-based climate protection measures (see next section).

Interviewees pointed out that an experienced, pleasant communication style leads to a higher level of experienced solidarity in the co-operative. (4-5-a.rtf/13:75; 3-3-a.rtf/24:22)³. The following indicators for such a communication style were outlined: First, taking time for communicating, second, developing and sharing ideas and third, the existence of spatial opportunities to meet and share collective action (Schröder 2013). These results might seem obvious though evidence in the practical field (e.g. daily routine in housing companies) shows that knowledge of these facts does not necessarily lead to its implementation. Therefore empirical investigation of the interrelations of the subject seems mandatory.

The communication style in the investigated co-operatives is influenced by the self-conception that both the management and the members of the co-operative have about themselves and about the respective others. If they consider their relationship to be a consumer-provider relationship, their communication style will be shaped respectively. For co-operatives, Axel Fietzek (2013), chief executive of LebensRäume Hoyerswerda eG, indicates that the relationship between management and members should develop from a consumer-provider-relationship towards a rather mutual, partnership-based relationship. Our data shows rather that a mutual relationship strengthens the intensity of experienced solidarity between members in the co-operative (3-2-a/23:179) and thus enhances social cohesion. Some respondents further clearly understood the relationship between solidarity, as one of the basic principles of co-operatives, and climate protection.

For example, this is the case when a housing co-operative, which defines climate protection as its goal

enables those residents who manage with smaller household-incomes to afford a more ecological, climate protective living-standard (habitation, mobility etc.). In this context internal communication gains a significant mediating capacity between solidarity and climate protection: Co-operatives which develop a beneficial internal communication style have a positive impact on the expression of solidarity within the co-operative and thus influence the conjoint action in favour of climate protection. A beneficial, internal communication style comprises also of a degree of openness to new ideas for behaviour-based climate protection measures (3-2/23:162; 4-4/12:73; 4-5/13:62).

We found a variety of media used by the co-operatives (paper, blackboard, and internet). Regular, informal interaction (beyond official meetings) among management and members, as well as among the members themselves and among the co-operatives' boards is seen as important and thus is stimulated actively by allowing generous breaks between meetings (3-2-a/23:46; 5-3-a/16:69; 5-5/43:20). Informal interaction activates members and is also used by management and members to discuss topics such as climate protection, solidarity and participation (7-4-a/17:42). Next to other examples, in one case a co-operative provided its members accommodation for informal meetings. This resulted in a foundation of a co-operative owned association (7-4-a/17:42) which now organizes a variety of member activities in the co-operative (4-3-a/59:64).

The communicative culture in the investigated co-operatives differs. Some co-operatives show a high degree of interconnection and networking, while in others it is minimized. It is remarkable that co-operatives that have defined climate protection as their major goal exhibit a rather partnership-based, self-conception of management and members. These co-operatives also show a high degree of interconnection and networking in communication (egalitarian and intensive cross-linking between management and members) with a special focus on participation of their members (e.g. minutes of the meetings are published in the intranet; 3-1/22:56). Both are beneficial for the development of climate-protective ideas (behaviour-based). In these co-

operatives the respondents attribute the development of climate-protective ideas to the management and the members likewise.

Whereas respondents of those co-operatives with a lower degree of interconnection and networking in communication attribute the development of these ideas mainly to the management and boards of the co-operative. Thus the communication-style in a co-operative and the self-conception (partnership-based vs. consumer-provider) have an impact on the development of ideas. Advantages that arise from an openness for new ideas for climate-protection and respective communication-style are clearly recognizable in the interviews: Several respondents reported that such ideas that originated from members have been implemented (6-4/40:46; 7-1/11: 51; 3-5/44:75; 3-5/44:40) and benefited the co-operative (e.g. for a car-sharing co-operative this led to an expansion of their range of services and to a number of new members; 6-4/40:46).

Climate protection through residents' participation

As outlined, our interview results have shown the interconnection of internal communication-style and behaviour-based climate protection measures. It is expected that climate protection will play an increasing role for housing companies, not only because of the "second rent" – the increasing costs for water, energy, waste etc. Also due to the increasing environmental awareness, the reduction of energy consumption and other measures are important.

Climate change effects and the housing sector

The consequences of climate change will affect the housing and real estate industry. The German Federal Ministry of Transport, Building and Urban Development (BMVBS) and the German Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR) have launched research programs (e.g. ExWoSt) and research fields (e.g. Immoklima, ImmoRisk, BBSR 2012) to investigate these consequences and respective solutions. Housing companies can implement direct and indirect mitigation strategies (e.g. reduction of

energy consumption via investment in energy saving measures). These measures are highly relevant since habitation generates an important part of the total energy demand in Germany.

Next to the apparent measures (construction and operation of buildings) housing companies have the option to implement awareness building measures in order to influence residents' actions towards climate protection (e.g. reduction of energy use, located nearby leisure and shopping activities, exchange of second-hand articles etc.). Often these comparatively low-cost, social climate protection measures are not applied because companies are not aware of them. This impression (derived from different research projects) was confirmed by the recent annual conference of the Berlin-Brandenburg Housing Company Association (BBU) which focused on sustainability measures and did not reflect the field of climate effects related to the behaviour of residents (except heating). Based on these experiences we analyzed the annual reports of the ten biggest housing co-operatives in Germany and came to the same result. Consequently there is a potential to raise consciousness for climate protection connected to residents' behaviour.

Communication with residents through the participatory method "Green Folder"

Participatory methods can facilitate communication and participation in processes of planning, development and decision making for residents, but these methods cannot be depicted here in detail. For different approaches in housing co-operatives and for the enhancement of member engagement and commitment see also Beetz 2005: 101ff., 145ff.. In any case, the early involvement of the residents has to be seen as a critical factor for adequate planning and implementation of measures, and thus for the continuity of utilization of offers. Participation methods not only lead to suitable results for planning processes, but additionally intensify the positive social interaction in the neighbourhood (social capital), which may contribute to the well-being within the residential estate (Wendorf 2006: 6). From an economic perspective, participatory methods can so far be understood as measures by

which individual identification of residents with the housing company can be strengthened. Beyond that a gain of image for the residential estate can be achieved. A win-win-situation is generated since alongside the benefits for the members there is also an advantage in competition that can be attained.

In the recent project the method was applied in a settlement of a rather large-sized housing co-operative (7.700 residential units). 600 households received the Green Folder and 24% participated. Within the thematic scope of the project the potential for climate-friendly behaviour has been the focus of the participation process. For this purpose, first the perception and the utilization of the common outdoor spaces had been requested. Thereby also the interest in possibilities for active participation in shaping and designing by the members has been captured. Furthermore the participants got the chance to place stickers on an enclosed district map to mark preferred places for bicycle-racks or benches. The following asked for the opinion on mobile plant-boxes (to be cultivated by the neighbourhood community), on different ways of sharing things in the neighbourhood, or on alternative kinds of shopping (e.g. to subscribe getting a box of vegetables from a local farmer). About 70 residents participated in the final step – a world-café and exhibition – and discussed the results. Even topics less obviously connected with ecological aspects came up and contributed to a higher degree of satisfaction within the residential area and consequently lead to e.g. reduced leisure time mobility.

Finally the “Green Folder” method has turned out to create a sound basis for planning and showed its potential for activating neighbourhood activities. Subsequently, the housing co-operative conducted physical alterations and established a range of services based on the results of the process. These physical alterations in the environment and the new offered services are directly perceivable and available for the residents. The option benefit which results from the option to use the new services adds to this.

Though the housing co-operative where the Green Folder method was implemented was larger, identification of the residents as members of the co-

operative was obvious and articulated precisely. It was remarkable that they were aware that the communication and participation culture therefore differs from other (non-co-operative) housing companies. This is a good basis for the success of the implementation and accomplishment of planned measurements and services. First results of the implementation process seem to approve this assumption.

Summary and Conclusions

Our interviews demonstrate that an experienced, pleasant communication style leads to a higher level of experienced solidarity in the co-operative. This increases the level of social cohesion and identification with the company and the residential environment. According to our interview results, housing co-operatives bear specific potential in responding to climate change issues due to their democratic principles. This refers to the management but we experienced a high awareness of the participatory possibilities and the specific situation relative to a non-co-operative housing company also in members. This was particularly remarkable since in larger co-operatives anonymity between members is rather expected. The advantages seem clear: First, residents can be identified who are willing to get involved in the shaping of their residential environment. Their action could be included in the planning of alteration measures and services which reduces their costs. Second, costly and possibly not demanded services and alteration measures can be avoided. Third, residents’ satisfaction with the housing company will increase because they feel acknowledged and their needs are met. This may increase customer retention and thus lead to decreased vacancy and turnover – the desired aims.

Additionally, it turned out that the co-operating housing co-operative has been sensitized to the breadth of the spectrum of climate protection measures and specifically to the social behaviour-influencing measures. This has potential for improving climate protection and can be used in the marketing strategy to attract and bind members.

Notes

- 1 "Solidarische Stadt – Genossenschaftliche Handlungsmöglichkeiten in Zeiten des Klimawandels“. Funded (2010-2013) by the German Federal Ministry of Education and Research within the "Social-Ecological Research" program.
- 2 In the research project the term communication is used in the sense of an extended psychological definition. It describes the verbal communication (e.g. addressing individuals directly) and the non-verbal communication (e.g. offering space for members to meet and converse) in a co-operative.
- 3 Interviews are cited according to a number that indicates the respective co-operative and line-number in the interview (e.g. 6-2-a/9:57). Constraints of space prevent a detailed presentation of this data but by referencing it here we hope readers wishing to discuss specific aspects of our data may be able to make a precise reference to that part of the data on which they may wish to have further elaboration.

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THE RELEVANCE OF JAPANESE AGRICULTURAL CO-OPERATIVES EXPERIENCE FOR DEVELOPING COUNTRIES (1)

Daman Prakash

Abstract

The agricultural co-operatives [JAs] have risen from out of the ashes. They have demonstrated their economic, social and political strength through sheer hard work, organizational and management capacities and capabilities, a systematic application of farm-related technologies, and consolidating their marketing, supply and credit efforts. These institutions have provided a continued supply of food, which, in a way, gave a strong boost and confidence to Japan's economic and industrial development. In the modern times, these co-operative institutions have undertaken a number of innovations and structural reforms to be able to counter the negative effects of global competitiveness. The Japanese agricultural co-operatives have made the farming profession equally remunerative and honorable as the industrial profession. It is, however, feared that farming may go downhill if the new blood does not enter the profession quickly and replace the ageing farming population. With a view to enhance the economic viability and servicing potential of these agricultural co-operatives their progressive amalgamation has been attempted. The JAs, based on their experiences of the present days and of the past times, have a lot of lessons to offer to other Movements outside Japan. There are many lessons to be learnt by the developing Movements from a long accumulated rich experience of the Japanese Agricultural Co-operative Movement.

Key Words

Agricultural Co-operation, Japanese Agricultural Co-operatives

Introduction

According to the United Nation's Food and Agriculture Organization [FAO], the world's land area for food grain harvesting rose only slightly over the 35 years up to 1995. During the same period, the world's population increased 1.8 times. Despite this, it was possible to avoid a food supply crisis because the yield per unit of land doubled due to various reasons including improved farm technology, other inputs and application of better management methods and techniques.

About 90% of this dramatic increase was due to the introduction of chemical fertilizers and pesticides, along with the improvement of crops and the expansion of irrigation. In order words, agricultural fields assumed the form of factories. But the wide-ranging use of chemicals has impaired soil conditions, and excessive irrigation using underground sources of water has lowered subterranean water levels. As a result, over a period of time the improvement in harvesting has subsided. Nearly 65-75% of the population in Asia-Pacific countries depends on agriculture. Farm income has been the main source of livelihood. Farm practices and means are traditional. Application of methods and technology for farm management, crop protection, post-harvest, diversification of cropping patterns, use of farm inputs, mechanization of farming, farm guidance, farm production planning, have not yet been used extensively.

Pressures on agricultural lands due to ever-increasing population, urbanization and development of other non-farm infrastructures have been heavy. Organization and management of farmers' groups or associations has been weak. In the rural areas,

agricultural co-operatives have been playing significant roles by way of disbursement of farm credit, farm supplies, marketing and agro-processing.

Although there are a large number of such co-operatives, their main functions largely remain confined to the distribution of credit, fertilizers and procurement of farm products for national food stocks. Marketing, agro-processing, warehousing activities are still weak. Their services to the members are inadequate.

Agricultural Co-operatives of Japan -Their Phenomenal Rise and Contributions

The phenomenal rise of Japanese post-War economy can safely be attributed to the hard and systematic work done by these agricultural co-operatives [called JA or JA Group or even JA Movement] in consolidating people, land resources, producing the needed food and providing the needed services to the community. The JAs are a good example of an integrated framework in the service of the farmers. They deliver multipurpose services and operate as multi-function economic institutions directly responding to the felt-needs of the members. They serve the members at the same time being under the control of the members. Their services range from the 'Cradle to the Grave' [This slogan has presently been pushed into the background mainly due to the economic capabilities and capacities already achieved by the agricultural co-operatives. The fact, however, remains alive because the organizational structure and the system still firmly exists and has been integrated in the services provided]. The Japanese agricultural co-operatives stand committed to "3-H Agriculture – Healthy, High Quality and High Technology".

The Japanese Agricultural Co-operative Movement had successfully introduced a number of innovations which are of great relevance to the Movements in the Region. Some of the interesting features of the agricultural co-operatives have been:

Sustained and progressive amalgamation of co-operatives to make them more economically-viable and service-oriented;

Farm guidance and better-living services to achieve a high degree of communication with the members and to enrich their economic and social life;

Protection of interests of farmer-members through mutual insurance, health-care;

Carefully planned and well-executed marketing and supply functions through specially-created and co-operative-owned holding companies;

Production of quality consumer goods and services; Implementation of the "joint-use" concept e.g., joint marketing, joint purchasing, joint-use of capital, joint use of facilities etc.

Successfully interacting with the government through a process of policy dialogue and lobbying inside and outside legislature; Education and training of farmer-members through a network of cooperative training institutions;

Ensuring higher economic returns to the farmer-members through a process of 'value-addition';

Encouraging women and youth to form associations to compliment and supplement the work of agricultural co-operatives especially in taking care of and sustaining the interest of the young and the aged in the honored profession of farming;

Encouraging the farmer-members in controlling pollution to produce and market the healthy, safe, and nourishing agricultural products to safeguard the interests of consumers; and,

Extending technical collaboration and co-operation to the developing movements.

In the light of the experiences of Japan, potential factors that would influence the operation of co-operatives elsewhere are: Customs of mutual help and assistance in rural areas; Introduction of new crops and technology to increase productivity; Active participation of women members through women's associations and Han groups; Employment of capable and professional managers; Acquisition of operational facilities and linking credit with marketing; Guidance and education for improving production technology; and, above all, the cooperative being a member-centered institution rather than the cooperative being a 'cooperative-centered' institution. Based on the above factors, some general requisites for an effective operation of an agricultural co-operative could be derived. These include: Promoting members' participation - economic and organizational; Increasing membership by encouraging non-members, women and young people to join agricultural co-operatives; and, Promoting the utilization of co-operative services by members.

Elements of JA Agricultural Policy

The principal elements of JA Agricultural Policy are, among others: Involving all countries in food security efforts; Maintaining productive capacities; Maintaining food stocks; Promoting food aid; Strengthening international aid; Promoting technical assistance; Promoting educational programmers on world food security; Increasing support for an active role of women; Strengthening support for family planning and welfare; Supporting international agricultural research; and, Establishing a new agricultural trade system.

Services to the Community -Methods and Services

Already within the organizational structure of the agricultural cooperative sector of Japan a number of business organizations, fully owned by cooperatives, have been operating, trying to fulfill the marketing, supply and credit needs of members [they are both - producers as well as consumers]. However, due to the open market implications, a greater number of ageing farmers, inability to recruit or interest young people to

enter farming profession, and the growing needs of farmer-members to market their products fast and with some economic advantage, the JAs appear to be facing problems. The consequences have been: members prefer to have direct access to the market; members converting their farm lands into non-farm purposes; members do not have excess funds for savings; and, the co-operatives prefer to invest their funds in non-farm investments [even speculations] to earn higher incomes etc.

Amalgamation of JAs has been high on the agenda. The process is viewed as very difficult, nerve-wrecking, highly diplomatic and time-consuming. This involves the ego-power of local leaders, division of assets and liabilities and displacement and rationalization of employees. From 12,000 agricultural cooperatives in 1960, the number went down to 2,300 in 1995 and 1,500 in 1999, and it is expected that the number of amalgamated co-operatives would still go down to 550 by the end of the year 2000. The three-tier system is being steadily converted into a two-tier system by eliminating the prefectural tier to improve efficiency in management, delivery of services and savings on administration expenses. It is argued that by doing so the basic members will get greater economic benefits. It is also assumed that members of primary co-operatives will be served better by the federal institutions.

There has been a steady decrease in the number of farm households – there were 6.06 million in 1960, 5.40 million in 1970, 3.44 million in 1995 and just 3.29 million in 1999. The farming population of 8.11 million in 1970 decreased to 3.32 million in 1995 and to 3.22 million in 1999 and the farmers above 65 years who were 12.1% in 1970 had risen to 17-20% in 1999. During 1995 there were almost 50% of the farmers of 65 years and above still working on their farms. Similarly there were nearly 61.2% of women engaged in farming. In the JAs they represent only 13.0% of regular membership, and as little as 0.2% of directors. On an average there were 3,642 members, 121 employees and 11 branch officers per JA – the largest one being JA-Topia Hamamatsu in Shizuoka Prefecture with 27,000

members. On an average there were 20.7 board members and elected auditors per cooperative and the share capital contributed by per household was 278,000 yens.

Provision of Services to Farmer-Members

Some of the key services provided by JAs include: marketing, supply, credit, farm guidance, better-living and joint-use of utilization services including large-size high-tech country elevators, “A-Co-op” Stores, grading facilities and distribution centers. The strength of JAs lies in the agro-processing by making an extensive use of high technology, locally-available resources and products, promotion of local products, and strong linkages with wholesale and retail markets. Another factor which binds these institutions in the community fold are the women’s associations, which act as, a bridge between the co-operative business and the community needs. Institutions like the Ie-No-Hikari Association, National Press and Information Federation, JA-Zenchu and the IDACA also provide a lot of information, through print and visual media on the achievements and problems of JAs for domestic and foreign audience.

Young Japanese who have their roots in rural Japan are being gradually encouraged to take up farming as an honorable and highly remunerative profession. Some of the well-known and honored names in agricultural cooperative business in Japan are, among others, JA-Zen-Noh [the marketing and supply federation], Zenkyoren [insurance federation], JA-Norinchukin Bank, Unico-op Japan, “A-Co-ops” etc.

Lessons Relevant to the Developing Agricultural Cooperative Movements

Some of the most recent experiences of the Japanese Agricultural Co-operative Movement would indicate that the agricultural cooperatives have to be run on strong economic lines and direct their total efforts and service at the farmer-members/associate members who are the owners of the institutions and users of services. These are discussed briefly below:

01 Creation of a Corporate Identity

With a view to bring unity within the agricultural cooperatives and to highlight the quality of JA products, the Movement adopted a Corporate Identity – JA [representing the Japanese Agricultural Co-operative]. “JA” is printed on all products which are supplied through the agricultural co-operatives channels. CA “JA” is recognized as a strong commercial group just like any other CI and the brand is associated with fresh, healthy and good product.

02 The Concept of Co-operative Companies

Since there is a legal limitation on the agricultural cooperatives to carry out business with non-members, the cooperatives have created companies which are wholly owned and controlled by cooperatives. JA-Zen Noh is a case in point. JA-Zen-Noh [the National Federation of Agricultural Cooperatives] is Japan’s federation of agricultural co-operatives, one of the largest in the world. Most of the 4.7 million farm households in the country belong to one of JA-Zen-Noh’s 1,600 primary level co-operatives. In co-operation with prefectural federations and primary level co-operatives, JA-Zen-Noh serves its member-farmers by purchasing and distributing the materials and equipment for agricultural production and the necessities of daily farm life.

It is equally involved in the collection, distribution, and marketing of agricultural products, which it handles through its own channels. It imports quality materials for Japanese farmers, including fertilizers, feedstuffs, LP gas and oil, in order to promote their stability and cost efficiency. Overseas operations range from direct importing from producing countries to establishing procurement subsidiaries and production bases and chartering ocean-going vessels. It has thus created companies and corporations to undertake this business. Another organization, Unico-op Japan is also a company promoted by the agricultural cooperatives to import and distribute a variety of commodities needed by the agricultural cooperatives in the country. With a view to consolidate its presence and power in the market, the JA-Zen-Noh is going ahead with the process of amalgamation. The prefectural

economic federations are increasingly merging with the national federation.

03 The Concept of “Joint-Use”

The concept is widely implemented not only in the agricultural co-operative sector but also in other industrial sectors. It overcomes the problems of procurement of funds and harnessing of resources. This concept implies joint purchasing, joint marketing, joint use of capital, and joint use of facilities.

04 Collaboration with Private Enterprises

This concept is based strictly on the principle of pure business. The JAs often use their extra industrial capacities to meet the requirements of other enterprises. Some of the JAs have been filling bottles for juice makers, coffee processors and even for popular brand companies.

05 The Concept of One-Window Service

It is generally observed that the office a primary cooperative is alike a co-operative complex where the members transact their business at one place. The JA usually houses the bank, insurance service, travel agency, farm distribution centre, farm guidance services etc.

06 Amalgamation of Agricultural Co-operatives to consolidate their business and to provide more efficient services to their members.

The main aim is to strengthen the JA group and to make the co-operatives economically viable. There is an ‘amalgamation’ trend in the country –banks, telecommunication companies, automobile companies and other business houses are merging together to enhance and consolidate their economic strength. JAs have been following this programme with the following objectives: making the farming operations viable, making the co-operatives strong and viable, and facing the market competitions bravely through a strong collective bargaining power. The process has been slow and painful.

Some of the problems faced by co-operatives in the process of amalgamation have been: [a] Division of assets and liabilities, [b] Placement of personnel, [c] Difficulties in arriving at

consensus, and [d] Egoistic attitudes of local leaders. The process is based on consensus and with the agreement of all the members. Government directives or instructions have no place in the process. While there are several good merits of the process, several demerits have also been cited.

Some of the drawbacks of the process of amalgamation have been stated as: [a] Co-operatives will become too large to manage; [b] Co-operatives will lose contacts with the members; [c] Members will feel distanced; [d] Bureaucratic tendencies will develop; [e] Leaders due to their power and wide area of influence and business operations will get involved in local politics or may get involved in party politics; [f] Failure of a large co-operative will result into huge economic losses, etc. Some of the amalgamated co-operatives have, however, shown good results. Business organizations like the JA-Zen-Noh and JA-Zenkyoren are already actively pursuing the process of amalgamation

07 Farm Guidance Activities

This concept is not only to provide technical information to the farmers on cultivation of various crops but also to assist their farmer to increase their income. The farm guidance activity revolves around the total economic business of the farmer as well as of the co-operative. The farmer is guided on technical and economic aspects of particular crops e.g., higher income can be derived by taking up floriculture instead of rice, or cultivation of a special variety of rice, or a special kind of tomatoes, and by the application of methods of cultivation e.g., hydroponics cultivation etc. The main aim of this service is to enhance the income. Without provision of this service, the JA is not called as a multipurpose co-operative. Farm guidance is the key to the success and strength of the business of the JA. The service is linked with farm planning, provision of farm inputs and other supplies, and marketing of the ultimate product. Farm Guidance advisors are now targeting the commodity groups/producers group in order to increase their production and business.

08 Regional Agricultural Promotion Planning [RAPP]

In the production of food the JAs are the basic units. Each farmer produces a production plan, the JA collates these plans and produces a comprehensive regional plan. The municipal/city administration and prefectural governments and the national government develop their respective plans, and support the basic farmers with inputs, technical advice, equipment and recognition. The RAPP not only produces a comprehensive agricultural promotion plan, but also summarizes a few other things e.g., the quantity and quality of rice, barley, corn, fruits and vegetables, the approximate requirements of fertilizers, farm chemicals, farm implements etc. This data enables the JAs to prepare the supplies and timing of these supplies.

09 One-Village-One Product Concept

The JAs have supported the members to specialize in their respective products. Members are encouraged to improve upon the product. The co-operatives provide all the needed technical and promotional support. These village products eventually become the specialized products of the respective prefectures. Some of the examples are: Nagano's Fuji oranges, Kyoho Grapes, Carnations and Turkish bellflowers, Enoki-take mushrooms, pickled apricots, beef cattle; Fukuoka's Persimmon fruit, Kochi's cucumbers etc. are the result of the application of this concept.

10 Diversification of Agricultural Practices

JAs are not restricting themselves to produce rice and vegetables alone. They have taken up other activities e.g., herbs garden, green tourism promoted by the JA-Sawada in Gumma prefecture. The members of this co-operative decided to pool their lands to create a very large herbs garden which has assumed importance for green tourism in the country.

11 Farm Management Centers

These technical units are created to provide all services and equipment related to farming to the farmer-members. They provide technical information on the equipment, their use, and maintenance. Farmers find it very convenient to

obtain all their supplies and the required technical information and guidance from one single point.

12 Producer-Consumer Contact Markets:

These are often called 'Morning Markets'. The JA provides space to farmer-members to sell their products [fruits, vegetables, flowers, potted plants etc.] directly to the consumers without going through the process of middleman or local markets. These are usually located in one corner of the JA or its "A-Co-op" Store. The idea is also to give a chance to the busy citizen/consumer to come in direct contact with the producer – the farmer, thereby creating a kind of goodwill for the farming community and the JA.

13 The Concept of Double-Check in Accounts

Business transactions are double-checked to avoid any error or mishandling.

14 The Concept of Savings with the Co-operative

Members are encouraged to deposit their savings with their co-operatives. This helps capital formation thus overcoming the shortage of funds.

15 Chemical-Free Food/Agriculture

The concept is to meet the growing demand for "Fresh, Healthy, Safe and Chemical-free Food". Farmers are advised to gradually increase the use of bio-fertilizer and avoid use of farm chemicals. Farmers who are engaged in dairying, hog-raising and poultry business are often confronted with the problem of disposal of wastes. These are natural bio-fertilizers which could enhance the quality and safety of farm products. Under this concept the farmers are entering into purchase and sale agreements with each other, thereby, increasing the economic transactions and producing the safe and chemical-free products.

16 Women's Associations

These are supporting the JA in many ways. These are informal groups but the structure is parallel to the JA structure – from the basic step to the national level. [There were 1,526 JA Women Associations with a total membership of 1.4 million as at the end of 1999]. These associations supplement and compliment the social and economic activities of the JA besides enriching

the social aspects at the family level. They also contribute significantly in the operations of JA's "A-Coops" – large size departmental stores run by the primary co-operatives. In fact, these associations try to promote the business activities of JAs.

17 Ethics and Good Governance in Agricultural Co-operatives

By tradition the Japanese society respects the rule of law. The JA Board is responsible for the business operations, and in the event of economic losses, all the members are obliged to make good such losses. The elected officials e.g., board members and auditors are paid officials and their term of office is fixed. Decision-making and implementation process is based on the principles of 'accountability' and 'answerability'. There is a good and harmonious relationship between the chief executive and the Board. The Chief Executive is the Managing Director of the JA [who sits on the Board and is naturally well-informed of the trend of discussion and the decisions taken].

There are good ethics within JAs and everyone in power in the organization – small or big – takes care of the members. Care for the community is another important factor for the success of JAs. These are: taking care of the aged through welfare homes and supply of their food and household requirements, medical facilities, establishment of child nurseries etc. These services are instituted because these are the needs of the community and the co-operatives have not to seek the permission of the government or any other authority to initiate such facilities and services except for obtaining the approval of their members. The JAs have good working relationship with the local governmental authorities and other non-governmental organizations.

18 Open Membership

The JAs have opened their doors to farmers and non-farmers in the form of Full Members and Associate Members. In the provision of services to both the categories there are no restrictions – the only difference is the right to vote. Associate members are not qualified to vote. Since the

cooperatives are community/village based, it is the duty of the co-operative to serve all the members of the community. Also the inclusion of Associate Members helps increase the capital base and business operations of the JAs. In many countries, agricultural co-operatives do not serve the non-members and do not have the practice of formally accepting non-members as associate members.

Problems Faced by the JAs

The present stage of development of the Japanese agricultural co-operatives is the result of 100 years of experimentation, innovations and improvements. These successes are not devoid of impediments. Some of the problems encountered by the JAs have been identified as follows:

- Lack of ability for management and ability of planning and development;
- Lack of leaders' management ability;
- Lack of products development ability;
- Inadequate system of national/regional level research institutions;
- Insufficient study and research of consumers' needs and trends of market;
- Failure to establish brand names;
- Lack of development of distribution channels;
- Lack of understanding between processed foods and perishable foods;
- Inadequate linkages with the public information, events planning;
- Insufficient public relations in rural areas;
- Shortage of raw material faced when enlarging the business scale;
- No linkages with Regional Agriculture Promotion Plan [RAPP];
- Raw materials are expensive;
- Operations are based on season
- Shortage of assorting commodities;
- JA factories tend to operate independently;
- No establishment of co-operation system with members for management.

Conclusion

Agricultural co-operatives provide all types of

economic and social services to their members. They demand effective, enlightened and skilled leaders. They need initiatives and services to sustain the interests of their members through the provision of education, training, guidance, extension and farm inputs, farm credit and marketing opportunities. They have to be run on democratic lines. They operate within the framework of national guidelines, but at the same time fulfill the demands of domestic and international markets. Agricultural co-operatives, to be effective and acceptable, must take the members' views and their felt-needs into consideration. An active communication has to be established and sustained between the management and the members, and between the leadership and the management.

Agricultural co-operatives have no reason to be afraid of the open market pressures if their members remain united and respond to the needs of the market. The unity of members is the strength of the cooperative business. The pillars of strength of the Japanese agricultural co-operatives consist of, among others: amalgamation of primary co-operatives; restructuring of JA organization from three-tier to two-tiers to generate greater efficiency in management and provision of services; farm guidance to ensure higher productivity with due consideration for environment; better-living activities in association with the women's associations; continuous policy dialogue with the government; acceptance and application of farm technology; and dissemination of information and technology among farmers in Japan and abroad.

Agro-processing leading to value-addition and higher economic returns to farmer-members is the key to the success of agricultural co-operatives because through the application of this concept members get more economic returns and they get closer and more involved with their co-operatives. Agricultural co-operatives strive hard to help their members to increase and sustain their income levels through a variety of innovations and services. Economic returns are the key to sustain the relationship between the members and their co-operatives. JAs have, through their actions, given ample proof of it. We, in the Region, need to have a closer look at the dynamism of these institutions.

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Empire and Co-operation. How the British Empire used co-operatives in its development strategies 1900-1970

Rita Rhodes ISBN 978 1 906566 56 2

Rita Rhodes has written what may come to be regarded as a seminal study on an aspect of the British Empire's mix of manipulation and paternalism resulting in its possibly rather surprising promotion of co-operatives. It may not have been the author's intention but the materials she assembles in her book may well help to explain the British Empire's successful management and even more successful transformation into the British Commonwealth of independent nations that remains even to this day a globally significant diplomatic community.

In the period covered by Rita Rhodes' history the British Consumer Co-operative remained the biggest and most successful example of co-operation in the world and was an important political, economic and social force within the United Kingdom. The co-operative model had proved its worth as a domestic force for peaceful social transformation within the United Kingdom. In doing so it did not overly disturb the ruling classes and as Rhodes herself remarked in chapter three was supported by a significant segment of the British aristocracy during its formative years. By 1900 she notes that there were friends of the consumer co-operative movement in both Liberal and Tory parties although the much stronger support came from the non-conformist elements within the Liberals. At this time Rhodes notes the increasing importance of the CWS and the world wide import business that it was developing to provide a growing British consumer market supplied in part by imports from various parts of Britain's global empire. Rita highlights this aspect with references to *The Peoples Yearbook*, an annual review of the CWS Ltd. She quotes from its 1921 issue to the effect that the CWS to counter the monopolization of the world's resources was compelled in self-defense to '...go direct to the sources of supply for the requisite quantities of raw materials necessary to meet Co-operative requirements' (Rhodes, 2012, p.198). This

included large volumes of palm kernel and palm oil from West Africa. In an earlier chapter she had noted the CWS mainly invested directly to secure Irish dairy supplies rather than support indigenous co-operatives.

The relatively late entry by the British consumer co-operative movement as *a movement for co-operative development* may be explained by the political conservatism of the leadership of the CWS Ltd with its focus on the British consumer. Also the relative weakness in the UK of alternative models of co-operation. The producer co-partnership model was abandoned in favor of a consumer dominated model in which relations with other co-operatives in Ireland and latter in other parts of the Empire were on a market basis.

The productive model Rhodes merely notes was one that failed whereas the consumer model succeeded. However, her book does recognize the limitations of that success. In her discussion of the gradual split of co-operative and socialist ideas Rita notes that the consumer co-operative model whilst, addressing those in the working class able to help themselves, was less relevant to the really impoverished bottom segments.

The socialist model was much more willing to see the state as an active promoter of social and economic reform. In the Empire the need to address the very poor peasant and the problems with indigenous money lenders promoted the need for a more top down approach. Political stability as well as a sense of social justice no doubt drove initiatives to introduce co-operatives for agriculture and also credit across the Empire.

The encouragement to spend distributed surpluses on consumer goods and the insistence on dividend and profit sharing by *both* consumer and producer factions in the UK at the time

missed the critical importance of *accumulation of capital for the employment of labour* so central to William King's bottom up application of Robert Owens' vision of working class self sufficiency. Rita Rhodes does not go into this issue which was such an important factor in the later international divisions that emerged in the co-operative movement's global institutional context.

Indeed the idea of *rival models* would have been seen as inimical to the unity of association that saw so much cross over between different dimensions of association. Chartist, trade unionist and co-operators in the 1830s through to the 1850s would not have seen themselves as rival models but as different expressions of the same ideal of the *liberation of labour*.

However, Marx as much as Mitchell, is a factor in explaining the weakness of the worker co-operatives for if the consumer movement deprived the latter of finance the communist movement deprived them of a potential leadership as many gifted people influenced by Marx saw a socialist revolution as the only or best option. However, what the Marxist and Fabian Socialist perspectives as well as those of the consumer movement failed to grasp was the power of bureaucracy to subvert them both.

Although supported by much top down philanthropy Rita Rhodes notes that the British co-operative movement remained firmly a supporter of bottom up self help principles if predominantly consumer not producer orientated philosophically. Thus concluding the first three scene setting chapters Rita Rhodes notes that the British Empire provided a framework for the spread of co-operation but that it was two very different forms of co-operation. The Empire being dominated by agricultural and credit co-operatives whilst Britain itself was predominantly a consumer co-operative model.

Rita divides her analysis of the evolution of co-operative ideas in the British Empire into three periods. First, 1900 - 1918 and the emergence of self governing dominions and an active advocacy for co-operation as a model for development in

the Empire by some influential establishment figures like Sir Horace Plunkett and the 4th Earl Grey. It was a period of experimentation with various models of co-operatives within the Empire but all with a very much top down development approach.

In the second period covering the interwar years there arises a growing cadre of professionals concerned with the development of co-operatives and in some of the colonies and mandated territories co-operative departments were established within ministries for agriculture. Within the UK several notable registrars emerged putting a stamp on co-operative legislation and development that lasted even beyond empire.

The final stage from 1945 to 1970 saw the transformation of both Britain and its Empire. Closer links emerged between the British consumer movement and the agricultural and credit societies found in its Empire. Rhodes identifies three factors explaining these developments. Firstly, in the Labour led Colonial Office the British domestic co-operative movement was influential in shaping policy. Secondly, the colonial office began to employ an increasing number of co-operative development experts. Thirdly, through the courses offered to colonial co-operative officials by the British Co-operative Union at its Co-operative College in Stanford Hall. In 1966-68, when the reviewer was a student at the College, there were officials from some thirty, mainly Commonwealth, countries undertaking residential studies.

Rhodes detailed documentation demonstrates the pragmatic and flexible approach taken to issues of imperial governance and to the development of legal frameworks and models for co-operatives. It's also clear from references to Irish, Dutch and German experience that their models were in the end borrowed and adapted for use in the Empire. Rhodes discusses Africa particularly Southern, Central and East Africa in a lot of detail and, off course, British India, the Middle East and towards the end of her book co-operative developments in Malaya and Ceylon. The latter's independence like that of India falls within the period of her study and she uses these transitions to demonstrate the resilience and

relevance of the co-operative model in the post imperial era. It is this continued relevance and resilience perhaps more than anything that justifies seeing the British Empire as more than just an exercise in mass exploitation and to recognize that in serving Britain's interests the British Imperial administration also sought to ensure economic development and the alleviation of some of the worst injustices *already occurring* in the territories it acquired. These included the early abolition of slavery and later countering local money lenders.

The co-operative idea was developed and applied very differently from the home model but with principles and ideals at least that were *shared* and which enabled the growth of the modern international co-operative movement. These ideals all arose back in the radical era of Owen and perhaps even earlier, as Rita suggests in her conclusions, to the vision of the English Parliamentary radicals - the Levers and Diggers of the *common weal*. This idea of a *Co-operative Commonwealth* even found its way into India's post independence constitution.

Rita Rhodes book contains a lot of interesting detail concerning the institutional contexts as well as the significance of individual roles in shaping the co-operative development inside the British Empire and beyond. She writes of development of the International Co-operative Alliance and the post second world war United Nations and their roles in continuing the global promotion of co-operation.

In particular one figure - Henry Wolf stands out. The latter's name appears in many references across Rita's book. Henry Wolf's life spanned an amazing epoch for world and co-operative history from 1840 to 1930. Born in Leeds Wolf had worked with the British Christian Socialist promoters of productive worker co-operation yet was educated in Germany and had extensive experience and knowledge of German agricultural and credit co-operatives as well as with the North American Credit Co-operatives. Wolf was an author, promoter and codifier of co-operative practice at a global level. He was consulted over the British India Co-operative legislation and played, if reluctantly, a key role in the foundation of the International Co-operative Alliance.

But, as her chapter 10 Civil Servants in Co-operative Development and many other chapters demonstrate, there were many remarkable people involved in the British Empires promotion of co-operatives. Rita Rhodes book is really in many ways their story.

In the accounts particularly of post colonial co-operatives in Ceylon and Malaya we see a negative part of the British colonial legacy. For in the newly independent government's continuation of top down controls and the relatively low levels of member governance became exacerbated rather than reduced. A rather poignant sub text in Rita's book is the tension between the example of idealistic and gifted developers, like the account of Edgar Parnell's establishment of the first consumer co-operative and first supermarket in Bechuanaland, with the contrasting post-imperial bureaucratization led by a 'big state' post war philosophy and its consequential bureaucratization and corruption.

A colonial civil service was - it may be the unspoken conclusion of Rita's book - not as easy to be controlled by local vested interests as occurred in independent post colonial states. Rita also mentions the problems of management corruption in places of extreme poverty. The problem of establishing local member control was a further factor inhibiting bottom up autonomous co-operatives in societies with very different social structures and histories to that of Europe.

The question remains to ask of this and of all good histories - what lessons does it hold for how we confront the challenges of our era? I would sum up the lessons as follows. For co-operatives legislation is important, leadership is critical and membership solidarity or unity is fundamental. The British Empire enabled the third factor to be overlooked by providing the laws and the leaders. But once the supportive supra state disappeared taking much of its leadership with it the fundamental importance of a lack in member unity becomes apparent. Let us place these lessons against our challenges today which I would list as;

1. Today in many parts of the former Empire and beyond the legislation is restrictive with

national elites seeming to be more concerned with keeping co-operatives at the lowest possible stage in the value chain rather than in enhancing their role in developing civil society and distributive justice.

2. In those historically pioneering movements which had or have reached positions of being major economic players today the level of member participation in governance is in most cases marginal and the managerial leadership shows more inclination towards demutualization than it does to fulfilling the vision and promise of co-operations ideal.
3. The growth in individualism and materialism is weakening the sense of community in locality and in industry (were trade unionism is facing eclipse) eroding the possibility of solidarity even amongst the poor where the impact of a popular culture driven by monopoly capitalism and the negative impact of drugs and alcohol are obvious.

Rita Rhodes remains in the final words in her remarkable book somewhat ambivalent; noting Dr William Kings admonition that co-operators must be reliant on no power but their own she juxtaposes this with the experience of a supra state who helped to promote co-operatives throughout the world even though their ideals were far removed from those of imperialism. The British Empires pluralism and the pragmatism of its political and social culture may account for this, as Rita suggests in her conclusions. The British Empire perhaps as much if not more than others alongside it, or before it, had to contend with a domestic political culture that was inimical to authoritarianism - even in deeply repressive periods of its history. Starting with Alfred's rallying of the population to defeat the Danes, through Watt Tyler and the Peasants revolt, the yeoman archers at Agincourt, the Levelers and Diggers in Cromwell's Army, to the craftsmen from the medieval guilds to the Amalgamated Society of Engineers of the Industrial Revolution, and all those bottom up co-operatives and mutual's demanding education, the franchise and distributive justice. All driven by a bottom-up activism.

The British elites have generally (not always) in the end recognized that accommodation is more

effective than repression. The British proletariat, rural and industrial, has generally (almost always) looked to gradualism through reform and self-help rather than revolution to ameliorate their conditions.

The question is what is the political and social culture of the supra states of today? How does the political culture of the dominant forces in contemporary globalization compare with the pragmatic pluralism and paternalistic recognition of the needs of the poor reflected in the British Colonial Civil Service? In looking for the model of a benign supra state there may be an unspoken suggestion that the opportunity for William Kings bottom up movement of the people is fading. It's not so much whether the gifted and idealistic promoters of co-operation are still to be found. Rita Rhodes book raises the question of what *is the space left for them to operate in?*

One of the most important today is clearly the growth of international NGOs concerned with aid, development, human rights and environmental and ecological sustainability. Rita Rhodes book points to these new forces in her last chapter where the importance of Oxfam and its promotion of agricultural co-operatives along with agencies working for the UN are brought into her narrative history in the twilight of the British Empire. The ability of these organizations to independently raise funds for their activities also suggests solidarity, that appears to have been weakening at the level of geographic boundaries and employment, has emerged around ethical issues and recognition of the negative consequences of capitalism.

In the West, particularly in North America where the culture prizes individual freedom most, the uncomfortable reality of China is forcing people to recognize that Marx was right at least in what he noted in his work of 1851-52 *The Eighteenth Brumair of Louis Bonaparte* – capitalism can thrive best in an authoritarian state. Rita's book, however, shows that in the contrary case of the promotion of democracy and equality of opportunity as well as improving distributive justice *islands of co-operation can lead to political and economic reform in the state and provide opportunities for the well intentioned individual to have an immediate impact*

in a time and place even though the context is hostile to those intentions. Britain's own transformation from repressive oligarchy in the early nineteenth century of the emerging social democracy post 1921 (when the franchise finally extended to women) is an important example. Although Rita Rhodes suggests the British Empire may not have been that hostile a context, examples of successful worker co-operatives in Fascist Portugal and the experience of the Basques in Fascist Spain reinforce the evidence that Trotskyite and other extremists 'all or nothing' approach is misguided. The British model of co-operative association of labour was based on the cautious rejection of expropriation of the assets of the rich on the basis of Adam Smith's Labour Theory of Value (not that of Ricardo and Marx) permitting the independent accumulation of capital by workers in co-operation through the application of their labour to incremental savings and donations. This meant it was possible for segments of the ruling class to support organized labour - a fact Rita Rhodes book documents extensively.

This is a book that will be required reading not simply for social historians of Britain's Empire but also for those interested in better understanding the interface between institutional and economic processes and reforming individuals challenging those processes. Rita Rhodes has written an important account of the global transmission and interaction of the co-operative ideal through men and women of goodwill across the first three quarters of the last century raising interesting questions for us in the first quarter of the new century.

The Editor

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