

Institutional Potential of Housing Cooperatives for Low Income Households: The Case of India

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Several countries have often considered Housing Cooperatives as a third sector alternative to the public and private sector for low-income housing (1). They emphasize different roles of the cooperative; for example, as tenant management organizations that replace public housing management (2); as community based and self-help organizations (3); or as vehicles for group credit (4). The cooperative organizations have also obtained preferential treatment (e.g. subsidies, land allocation, etc.) based on the rationale that they benefit low-income households (5). However, there is scarce literature on the institutional capacity of the cooperatives to serve low-income households and the conditions under which they do serve such households. As the experience of the housing cooperatives in New York, Sweden, Turkey, and India indicate, they serve a range of income groups, and they may or may not reach the lower income strata.

This paper examines the organizational potential of the cooperatives to indeed provide housing to low-income households, and the institutional conditions under which the potential is achieved. The examination is based on the Indian context, using the three cities of Bombay, New Delhi, and Madras as empirical basis. Although the study is based in India, it offers broader lessons for housing policy on the role of collective organizations like cooperatives for low-income housing. The study is especially germane in the present context when international agencies are emphasizing an *enabling* approach to housing (6).

The examination is done by a comparative institutional analysis of the Housing Cooperatives in the three cities. There are two dimensions affecting the functioning of the cooperatives: (i) the internal governance features of the cooperative (e.g. management), and (ii) the external institutional framework (e.g. laws, policies). As a collective organization, the cooperative has several features that potentially aid low-income households; chief among them are pooling of

resources, economy of scale, self-management, and community action. Yet, these features may not be achieved due to collective action problems endemic to the collective (7). Also, as Bonus (1986) argues, the cooperative is characterized by a precarious equilibrium between the member's benefits of being in the collective (*centripetal* forces) and the benefits of independent operation (*centrifugal* forces). Further, the external institutional framework may or may not support the formation and functioning of housing cooperatives. In an enabling framework, the transaction costs of the operation of the cooperatives would be lower, thus allowing them to reach further down the income categories. A supportive external framework would also help in resolving some of the internal problems that arise in the collective.

In India, housing policies have consistently extended preferential treatment to cooperative organizations. The regnant ideology of democratic socialism for over four decades since Independence favored the development of collective organizations like the cooperatives. Housing Cooperatives were given preferential treatment in terms of allocation of government land, credit and other subsidies (e.g. easier interest rates, exemption from certain duties, etc.) based on the rationale that they serve low-income households (7). However, low-income households have benefited to different degrees in the three cities. While the cooperatives are most effective in Bombay, they are least effective in Madras; in New Delhi, they have been moderately effective. In Bombay, the cooperatives are used for a wide range of activities (self-help housing, group credit, women's cooperatives, slum-dweller's cooperatives, etc.) and serve a wide range of income groups, from low to high income. In New Delhi, they are predominantly tenant owned cooperatives and serve middle income households; experimental New Multipurpose Cooperative Societies have been formed in slums since in the last decade. In Madras, the housing cooperatives are predominantly housing finance cooperatives that serve middle income households.

The comparative study holds at least three lessons for housing policy. First, at the organizational level, as recognized by much of the housing literature, cooperatives perform a range of functions that can potentially aid low-income households. They can be tenant managed organizations, housing finance cooperatives, or housing construction cooperatives. However, the key feature is

that the benefits of joining the cooperative should outweigh the benefit of independent acquisition of housing i.e. the costs of obtaining housing through the cooperative should be less than the costs of obtaining it through the market. In Bombay and New Delhi, the real estate market is such that obtaining formal housing through the cooperative is economic. Comparatively, the real estate market in Madras offers less incentive for forming cooperatives; they are used to obtain housing finance.

Second, the development of an institutional structure supporting cooperatives lowers the transaction costs involved in the formation and functioning of cooperatives. While there is an elaborate institutional structure supporting cooperatives in Bombay and New Delhi, it is almost non-existent in Madras. The District Cooperative Association in Bombay and New Delhi aids the tenant cooperative societies by providing financial, legal, administrative, and procedural support. The reduction in transaction costs through such support has helped the cooperatives reach low-income households in Bombay. The housing authority in Bombay and many non-governmental organizations use the cooperative as a vehicle to form groups for the provision of low-income housing (8). In Delhi, the history of housing cooperatives is much shorter, and have recently started to benefit slum-dwellers on an experimental basis.

Third, minimal regulations on the functions of cooperatives allow them to engage in a diverse range of activities that aid low-income households in multifarious ways. In Bombay, while housing cooperatives originated as tenure based organizations, the minimal regulations have allowed them to organize specialized collective organizations for group lending and self-help among low-income women, and pavement and slum dwellers. Similarly, in New Delhi, experimental multi purpose cooperative societies have been formed among slum-dwellers for group lending and collective action. In Madras, excessive government intervention through the Tamil Nadu Cooperative Societies Act restricted the activity of cooperatives to housing finance, which has benefited middle income households; low-income households have hardly benefited from the cooperatives.

Notes:

- (1) See Bengtsson (1995) for Sweden; Werborg (1996) for Denmark; Koschinsky (1998) for the United States.
- (2) See Rohe (1995) for the experience of conversion of public housing into cooperatives in the United States; Clapham and Kintrea (1994) for similar experience in Scotland.
- (3) See Vakil (1996), Meffert (1992), Cooperative Housing Foundation (1993) for the role of cooperatives as self-help organizations in Zimbabwe, Mexico, and Central America respectively
- (4) See Patel and D'Cruz (1993) for how women's cooperatives of pavement dwellers are used for extension of group credit in Bombay.
- (5) Turkey (Pamuk 1993), India, and Sweden (Bengtsson 1992) are good examples of this.
- (6) The United Nations adopted the enabling approach in its Global Strategy for Shelter to the Year 2000; following that World Bank (1993) also endorsed this approach. See Pugh (1994) for the evolution of the enabling approach.
- (7) See Olson (1965) for how group size and selective incentives matter to achieve collective action; also see Hardin (1982).
- (8) For example, housing in the Sites and Services schemes in Bombay were allocated on a cooperative tenure basis after the beneficiaries were formed into cooperatives of 30-35 households. NGOs like Mahila Milan and YUVA also use the cooperative as an instrument for forming pavement dwellers and slum-dwellers into cooperatives for collective action and group credit.

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