# Affordable Housing
# for Urban Poor

**Prepared by**

**National Resource Centre
SPA, New Delhi**

**Supported by**

सत्यमेव जयते

**Ministry of Housing & Urban Poverty Alleviation
Government of India**

July 2009

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(Est. by Ministry of Housing & Urban Poverty Alleviation,
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# AFFORDABLE HOUSING

## Background

Affordable Housing is the buzz word in the housing circles. Since the onset of recession in the real estate market, real estate developers have been announcing launch of Affordable Housing projects. Most of these projects aim to provide houses in a price range of Rs. 12-25 lakh with an area of 700-1200 sq.ft. These projects are apparently aimed at middle and upper middle income groups. Following the huge pile-up of inventories in ambitious luxury housing projects launched during the boom period in the real estate sector, the developers had no survival option but to reduce the prices. But along with reduction in price, there has been a significant reduction in specifications of the product.[1]

Affordable Housing gets defined purely in terms of what households in different income ranges can afford and housing is provided by the market within that price range irrespective of the quality of housing. The same pertains to housing for the urban poor. Since their affordability levels are very low, the market provides them with housing which is characterized by insecure tenure, small size, unhygienic environment and non-existent infrastructure.

Non-availability of Affordable housing is as much a problem of the middle income groups as it is of the lower income groups. In their inability to find appropriate abode many a higher (not high) income groups (belonging to middle and lower middle income groups) are constrained to opt for sub-standard housing. Many invade cheaper/subsidized housing provided by the state for the poor thus negating government efforts. The issue of Affordable Housing (AH) thus has to be looked at in an integrated manner. This paper proposes to do the same.

The paper is divided into five sections. Section I defines the concept of affordable housing for different income groups and issues thereof. Section II explores the capacity/competence of the market in providing affordable housing for different income groups and specifically for the urban poor. Section III briefly describes and

evaluates various government policies directed towards housing and Section IV various programs adopted by the state and central government to facilitate provision of affordable housing to various income groups. It is important to revisit these policies/programs since many of the new proposed policies/programs are a rehash/recast of many of the old tried-rested and semi-successful programs. It is imperative to appraise these programs to find out as to why despite all the efforts of the central and state governments and parastatal institutions, no dent has been made in solving our housing problem. In the background of the nature of India's urban housing problem, India's Urban Housing and Habitat Policy 2007 is also analysed in Section IV. Current housing policies and programs of selected states are discussed in Section V. Based on past experience and new realities, the probability of likely success of these programs is evaluated. Section VI attempts to provide some workable suggestions relating to policies/programs for providing housing for all and especially for the urban poor.

## 1    Concept of Affordability

Affordability is generally viewed as a ratio of price/rent of housing to income of household. The ratio differs for different income groups. Lower income groups can afford to pay much less proportion of their income for housing than that of higher income groups. Deepak Parekh Committee report defines the affordability ratio for different income groups as follows:-

**Table 1: Affordability Ratio of Different Income Groups**

| Income Groups | Size | EMI/Rent Income Ratio | Cost of Housing to Income Ratio |
|---|---|---|---|
| EWS - LIG | 300-600 sq.ft | > 30% of household's gross monthly income | > 4 times households gross annual income |
| MIG | > 1200 sq.ft | > 40% of household's gross monthly income | > 5 times households gross annual income |

We would like to separate out the EWS and LIG since in most Government and Institutional programs these are taken as separate categories.  While keeping the affordability ratio for LIG and MIG as given by the Parekh Committee, the ratio for EWS is lowered to not more than 20 per cent for EMI/rent and 3 times household's gross annual income for cost of house.

There is another category of urban poor which is also (or ought to be) part of government's inclusive policy of providing Affordable Housing for all namely BPL (Below Poverty Line).  This category needs to be considered separately and not as part of EWS.  The affordability level of households in this category would be not more than 5 per cent of the income.  The income categories and affordability levels thus can be defined as follows:-

**Table 2: Affordability levels and Income Categories**

| Income Category (in Rs.) | Affordability to Pay EMI/Rent (% of income) | Affordability to Pay cost of house (multiple of annual income) |
|---|---|---|
| BPL      <=2690 | 5 | 2 |
| EWS   539      -  3300 | 20 | 3 |
| LIG   3301 -  7300 | 30 | 4 |
| MIG   7301 - 14500 | 40 | 5 |

Taking the income classification of different income groups as defined by the Government of India, the affordability levels would be as follows;

**Table 3: Income classifications and capacity to afford EMI/Rent/Month**

| Income Group (in Rs.) | Affordable EMI/Rent per month (in Rs.) | Affordable cost of the house (in Rs.) |
|---|---|---|
| BPL  <= 2690 | <= 134 | ,<=64500 |
| EWS  2691 - 3300 | 538 - 660 | 96876--118800 |
| LIG    3301  -  7300 | 990  - 2190 | 158448--350400 |
| MIG   7301  -  14500 | 2920 - 5800 | 438000--870000 |

It is obvious that not all the households in each category would be concentrating at the upper end of the spectrum. Affordability levels of most of the poor would be much lower than what is being communicated by the figures in Table 3. It is also quite evident, that at current prices these cannot fetch much of a house in most urban areas. It is important to define the lower limits for each income category also in order to plan for provisioning of all for lowest of income group in each category.

Affordability is to be defined not only in terms of purchase price of the house (in case of ownership housing) or rent but must also include other charges/fees (registration charge, search cost etc.) payable at the time of purchase/renting of the house as also recurring cost over the lifetime of stay in the house. These would include taxes, maintenance cost, utility cost. One may also include cost of commuting to work place or other places of different members of family.

## 1.1    Affordable vs. Adequate Housing

Given the limitations on ATP (Affordability to Pay) of various (and especially the lowest) income groups, housing options for these are decided in terms of whatever is `possible' within these limits. Housing defined as being a package of multiple characteristics including location, tenure, size, infrastructure et.el. – compromise is made mainly on locations and size. In fact issue of affordability, especially for the poor is closely linked with location of housing. Most of the poor work in the informal sector. Most appropriate locations for these are near their work places. Since, most of them get paid according to work done, time consumed in commuting from places for off from (potential) work places would mean fewer hours of work, lower income and lower ATP. The increased cost of commuting from far off work places would have a further negative impact on `money' available for housing. Besides, the objective of providing Affordable Housing for all is not only to provide housing within their affordability limits but to provide a superior package of housing than what they have at present. The trade-off between location and tenure/infrastructure may not always be a preferred option for the poor.

Similarly, provision of small sized (one room) units with minimal area to fit within the affordability limits of the lower income groups needs to be reappraised.  At present, the enunciation of housing problem in various Government documents is not only in terms of dilapidated housing conditions but also large number of households living in congested (one room units) conditions.  Planning for provisioning of one-room units is not solving the problem of housing.  It may also be noted that housing is a durable product and once built will stand for next 30-40 years.  By providing for small sized high-density units one would be replacing one types of slum with other type of slums.

The objective of Housing policy thus should be not only to provide AH but to provide housing which satisfies minimum adequate norms.  One is to define Adequate Housing and then deliberate as to how to make this housing affordable for different income groups.[2]

The affordability limits (in terms of income prices ratio) are defined for the country as a whole.  So is the size of housing which is within this affordability limit.  It is quite obvious that such cannot be the case for all urban areas in the country.  Thus there may be very few households in Mumbai with incomes below the EWS limit but still find it impossible to afford even one sq.ft of land in the city.  In some small cities, income levels of the poor may be at the lower end of EWS income limits and despite low prices of housing, the problem of unaffordability will remain.  There will be not only inter state but also intra state differences in affordability levels of income groups.  Housing is a location specific issue.  The income limits, the affordability levels of the EWS, LIG and MIG need to be defined at the local level.  Formulating policies based on such generalized affordability norms may not be bring about desired results.

Another important issue which need to be considered whether definition of Adequate Housing would be the same for different types of households.  It must be recognized that households differ not only according to income but also according to household size, composition of household, profession, level of skills, stability or otherwise of job etc. The housing requirement and preferences would vary accordingly. The definition of Adequate Housing for each household cannot be the same.  Thus housing

requirement (in terms of location, tenure, size etc) of single male/female, new migrants will be quite different from other households. To plan for providing dwelling units of a particular size within affordability limits (defined in relation to income) for all may not be a good policy. It may also be noted that willingness to pay will be higher for 'a glove that fits' rather than a misfit. One is to avoid defining Adequate Housing in general terms of `x' sq.ft. of area for different income groups.

Definition of Adequate Affordable Housing will differ from place to place and for different categories of households within each income group. This needs to be defined at the local level.

## 2    Can the Market provide Affordable Housing?

The market does respond to purchasing power of different income groups and provides some kind of shelter to all. The only shortcoming is that this housing is far from `adequate'. The level of inadequacy is highest in case of the poor and is deficient in almost all characteristics of housing. The reason for high (unaffordable) price of housing in the market lies in:-

    (i)       high land prices,
    (ii)     cost of construction
    (iii)    transaction cost
    (iv)    taxes & legal charges, and
    (v)     profit margins of private operators.

Price of land is the single most expensive component in the cost of housing in urban areas. High price of land is a consequence of the inability of land market to respond quickly to increased demand for land with growth of urbanization. The sluggish response of land market is partly due to inherent inefficiencies and imperfections of this market. Land/housing market is characterized by small size of the market (number of buyers and sellers in each submarket is quite small); low levels of substitutability between houses/land plots in different submarkets; lack of information about price and availability of houses/land in different areas leading to limited competition. Further it takes a long time to make land available for residential use.

Conversion of land from one use to another takes a long time due to various state regulation and procedures.

Increased demand combined with slow response of supply leads to higher prices setting a benchmark. Even when supply is increased over medium to long term, prices do not decline. Prices are normally downwardly rigid. High and increasing land prices fuel expectations and add speculative demand to user's demand leading to further increases. Excess demand for land for new or existing uses is also partly responsible for increase in prices. Quite often public sector/state projects are provided land at much-below market (subsidised) prices leading to wasteful use of land thus drawing away excessive land from the market and reducing supply. Low cost of use of land in existing uses also creates excess demand. If the cost were put at more `realistic' (near-market) levels, land from existing uses could be released for new uses. This would have some softening impact on price of land. Supply of land could also be increased if conditions could be created for quicker turnover of use of land. Land could be released from obsolete uses and put to use for newly emerging uses. Examples of such obsolete uses in cities abound [see R.M. Kapoor1990]. In India, the high transaction costs of shifting houses reduce mobility of households. Many households may like to shift to different locations or different sized units over their life cycle but continue to be rooted in the same house forever. A notable example of such a phenomenon is old retired persons continuing to stay on in prime locations in the urban areas, which if vacated could release some housing for the new working population and would have positive impact on prices.

The cost of building materials, construction labour, outdated technologies, high capital cost due to long-drawn construction process increases the cost of constructions. Various fees and taxes payable by the developer during production process increase the cost still further. These cost include conversion fee (for change of land use from non-residential to residential use), license fee (for permission to carry out a project), registration fee and stamp duty (for registration of purchase of land in developer's name), wealth tax on land, development fees (for obtaining No Objection Certificates and approvals from various authorities) and income tax on sale of properties. These taxes and fees are passed on to the consumer (partly or

fully depending on the elasticity of demand and market conditions) as part of the cost of production. The cost of construction itself is hiked by taxes and duties levied on construction materials and services rendered by various professionals in the project. Sale tax, excise duty, VAT are levied on building materials like steel, cement, paint. varnishes etc. Further, payments made to consultants like architects, structural engineers contractors, real estate consultants and agents are subject to service tax. To nullify the impact of service tax, the developer normally increases the fee by the tax amount (fully or partly). Transaction cost including search cost, brokerage, stamp duty and registration fee. These escalate the cost to the owner still further.

In the past few years, a booming economy has given rise to a segment of population with very high income. This coupled with low interest rates on home loans and fiscal incentives had enhanced their affordability levels significantly. This has given a further fillip to demand for housing by a certain section. Increasing prices have fed expectations of continuing increments emboldening the builders to amass huge amounts of land at inflated prices. It is due to this fact that despite the present decline in demand, builders are wary of reducing prices significantly. Reducing prices to `equilibrium level' would mean huge losses for most of them.

Increase in prices at the (top) end of the market has impacted on prices at the middle and lower ends. This phenomenon has priced out not only the poor but many a middle income groups also from the market. Housing inequalities have increased. The decade 1991-2001 had seen an increase in housing inequality. If a census of housing conditions were to be taken up in 2009, one would see further widening of this inequality.

The market has thus failed to provide land at affordable prices to different sections of population. The most deprived being the poor. Government has intervened in the market through physical, legislative and economic instruments.

### 3. Policy Interventions in Housing Market

The interventions have not had a high rate of success. The major reason for that being that these instruments have rarely attempted to `correct' market failures. More often, these have been imposed on the existing market system and in trying to swim against the tide have been swept away. These 'solutions' have also introduced further distortions in the market. The cumulative impact of various policy measures has been to aggravate the problem rather than solve it. In the following paragraphs we briefly review few selected policy measures adopted by the government to provide affordable housing to public. Some of the instruments have been directed to reduce prize of housing per se while others have specifically targeted poorer sections of population.

Land Acquisition by public agencies and Land Banking and direct participation by the government in the housing market by providing built housing for different sections of population have been the major physical instruments. Legislative policies specifically formulated to make housing more affordable have included Rent Control Act (RCA) and Urban Land Ceiling and Regulation Act (ULCRA). Economic policies have mainly focused on making housing finance more accessible and cheaper for the public. Fiscal incentives and directed credit by commercial banks have been two major planks of this policy.

Despite all these measures, decent housing continues to be out-of-reach for a large section of population. The reason/cause for their limited sources need to be explored.

### 3.1 Reasons for Limited Success

#### 3.1.1 Planning policies

Land Acquisition and Land Banking was adopted by the state with the major objective of making land available in the market as and when required at state-fixed prices. It was assumed that this would help in stabilizing price of land in the market. Under this scheme, the city level development authorities (or Housing Boards at the

state level) would acquire large chunks of land and release it as per `need'. In practice, supply could seldom keep pace with increasing demand for various reasons, prominent being: (i) time taken to acquire land under the Land Acquisition Act; (ii) monopolistic control on supply of land by the development authority starving the market for land (iii) slow pace of release of land by the authority. The impact was just the opposite of intended objective. Land prices (probably) increased much faster than would have been the case in the absence of public sector's intervention in the land market.

Apart from the explicit policy of making land available in the market at `reasonable'/affordable prices, there have been other city level interventions which had impacted land prices. Master plans, zoning regulations and building bye- laws are prominent among these. Master Plans have been utilized by the government to project demand for land for different uses and allocate the same. Master Plans are long term plans and by their very nature cannot respond to dynamics of urban areas. By rigid allocation (through zoning) of land for different uses, they create more problems than solve. Similarly, excessive norms relating to building codes reduce supply of housing and increase cost. Under Master Plans, land has normally been allocated for housing of the poor. In most cases, this land has been usurped by other uses.

Land reservation for the Poor in new housing projects has been another measure employed by many state governments. This policy also has not succeeded in providing land for housing to the poor. New projects are mostly (if not in all cases) in peripheral areas. It was found (in case studies conducted in Uttar Pradesh and Madhya Pradesh) that plots of land allocated by the `developers' for the poor were the farthest from the city area and were poor topographically. The cost of developing such land (which is to be borne by the beneficiary) would be much higher than would be the case otherwise. These locations anyway are inappropriate for the poor even if land is made available free of cost (which is not the case). These locations would become appropriate for the poor only after (the completion of the project and) when the project is inhabited and demand for services normally provided by the poor (namely domestic servants, drivers etc.) emerges. The poor do

not have wherewithal to invest in these lands for future use. The reserved plots of land are usurped by the middle income groups. At times the land is utilized by the developer for MIG-HIG housing or other high income producing uses. The lack of monitoring of the prescribed policy by the authorities aids the developers in evading the policy. The case of Hiranandani (a prominent Mumbai Builders) illustrates this point.

### 3.1.2  Legislative Policies

Legislative Policies are normally thought of as zero-cost solution by the policy makers to achieve desired objectives. Two such policies in relation to housing have been the Rent Control act and the Urban Land Ceiling and Regulation Act. Under these, the burden of subsidizing housing is shifted from the Government to a section of population. Under the Rent Control Act, the burden of subsidizing the tenant is put on the landlord and under ULCRA it is the owners of `surplus' land who were to provide land at highly subsidised prices to the states for various purposes including housing.

Rent Control Acts are in operation in all states of the country. The terms of tenancy in the `controlled' premises are governed by the provisions of the acts. The major provisions of the RCA include
  a) control on rent and rent revisions,
  b) restrictions on eviction and,
  c) enjoinment on the landlord to maintain property in habitable conditions.

Under the acts, the tenant has statutory protection of law and can be evicted only on grounds specified in the Act. The long term impact of this act has been shrinkage of supply of rental housing in the market, increased rents, fast deterioration of housing stock, disincentive to investment in housing in general and rental housing in particular and emergence of black money and various other malpractices in the rental housing market. The RCAs have been only partially effective. The beneficiaries are mostly occupants of old tenancies. The poor have seldom benefited. They neither had the time nor money to go to court in case the provisions of the RCA were not adhered to.

Urban Land Ceiling and Regulation Act (the Act hereafter) was enacted in 1976 with the objective of curbing speculation in land and providing more equitable distribution of land.  The government imposed ceiling on  land which could be held by individual owners. Land in excess of that was to be acquired by the government and allotted for specified purposes.  It was assumed that this will loosen the oligopolistic control of private sector on land in urban areas and will have salutary impact on land prices. Very little land was acquired and even less was allotted for housing.  The Act resulted in taking out a vast portion of land from the market and created a psychology of scarcity in the land market.  Land prices spiraled after the act was brought into force.  The act was repealed after being in operation for more than 23 years.  Its repeal however is unlikely to have much impact on downwardly rigid prices.

Exemptions from the purview of the Act were provided.  If the `surplus' land was to be utilized by the owner for providing small sized houses ostensibly for the poor, the land would not be acquired by the government.   In some states (namely Gujarat) the implementation of the Act did result in increment of housing stock mainly for lower MIGs.  In many cases the exemptions were misused and housing provided catered to the upper income groups.

The legislative enactments intended to make housing more affordable for general public have had just the opposite impact on the market.


### 3.1.3  Monetary and Fiscal Policies

Considering the importance of finance in improving the affordability of housing, the Government of India had used both monetary and fiscal policies to increase the flow of funds to housing as also to reduce its cost.  Under monetary policy, commercial banks are directed to lend a certain percentage of their advances for priority sector. Housing has been designated as one of the priority sectors.  The government's fiscal policy has been very supportive of housing sector since 1996.  A number of fiscal incentives to encourage investment in housing have been provided.

## 3.2 Priority Sector Lending for Housing

Under the policy of Priority Sector Lending (PSL), scheduled commercial banks are to lend 40% of their net bank credit every year to priority sectors. The priority sectors include Agriculture, Small Scale industry and 8 other sectors. Housing is one of these. Whereas a sub-target has been fixed for agriculture and tiny sectors, none has been fixed for housing. Lending for housing under this program thus becomes a residual rather than a priority. In the last few years the credit given for housing by commercial banks increased manifold due to slow offtake by other sectors.

The loans by commercial banks can be either direct loans to individuals or indirect loans for housing to Housing Intermediary agencies and all investments in financing of housing.

The Reserve Bank of India has been continuously `liberalising' the terms of PSL for housing. The loan limit for direct loans has been increased from Rs.3 lakh to Rs.5 lakh in 1997 to Rs. Rs.20 lakh in 2009 as part of the fiscal stimulus. The private sector is `demanding' a further increase to Rs.50 lakh. It is clear that the governments' priority in housing sector, as defined in its credit policy is not confined to housing for the Poor but housing per se. The rate of interest on loans below Rs.2 lakh is subsidised whereas those above this limit are deregulated. The commercial banks thus would have no incentive to lend for the poorer sections of population. (directly or thru the indirect route via NGOs, cooperative banks or other intermediary agencies).

## 3.3 Fiscal Incentives

Government of India has provided a number of fiscal incentives to various stakeholders to encourage investment in housing. Tax breaks have been provided to owner-occupants, owners of rented properties, developers and housing finance institutions. One owner-occupied property is exempt from income tax and wealth tax. Though income tax is payable on rental income of all rented properties, a

number of deductions are permitted from this income. The deductions include: (i) all local taxes; (ii) 30 per cent of annual rental value and (iii) amount of interest on housing loan. In case the net rental income after deductions is negative, this can be offset against income from other heads or carried forward and offset against rental income for next eight years.

Limited deductions are also available to owners of owner-occupied housing. Deduction on account of payment of interest on housing loans are permitted upto a ceiling of Rs.30,000. The ceiling is higher at 1.5 lakh for property constructed after April 1, 1999 (Section 24). Section 80C of the Income Tax Act permits deduction of upto Rs. 1 lakh on account of repayment of Principal on home loan and related transaction expenses. In the event of sale of property exemption from capital gains tax is available of the capital gains are invested in purchase or construction of a residential house.

Tax benefits have also been made available to tenants and employers providing staff housing. Under section 80GG of the Income Tax Act, any expenditure incurred on payment of rent in excess of 10 per cent of assessee's income is deductible from his income upto a limit of 25 per cent of income or Rs.2000 whichever is lower. Employee housing is exempted from wealth tax provided the employee's income does not exceed Rs.5 lakh per annum.

Twenty per cent of profits of housing finance companies are exempt from taxation if they are put in a special reserve.

The Government had provided complete exemption from income tax to private builders on incomes from sale of small sized dwelling units (with a built up area of 1000 sq.ft if located in Delhi or Mumbai or 1500 if located elsewhere).The developers continued to clamour for increasing the permissible size limits. The concession was misused in most cases. (Section 80 1B is no longer in force) Section 80 1A provides 100 per cent tax exemption (for 10 years) to any housing project being an integral part of a highway project. Section 80 HHBA permits 50 per cent deduction from income of housing projects aided by the World Bank.

### 3.4    Impact of Tax Concessions on Affordability and Price of Housing

Tax concessions under sections 24 and 80C reduce the effective rate of interest and monthly installments payable.  The main impact of these has been to improve the affordability for housing of tax paying individuals who borrow for purchase of their house.  The poor pay no income tax and hence do not benefit.

Further, since income tax is progressive, benefit would be higher for higher income groups.  The effective interest rate will be reduced by 1.03 per cent for persons in the marginal tax bracket of 10 per cent and by 2.53 per cent for those in the marginal tax bracket of 30 per cent.  The effective EMI (Equated Monthly Installment) will be reduced by 8-24 per cent for different tax brackets)

The net impact of the tax concessions might have been an increase in housing prices for 2 reasons.  One, tax incentives would be capitalized and translate into higher property prices.  Two, combination of concessions on housing loans, low housing cost and exemption from capital gains would inflate investment (read speculative) demand for residential properties.

Thus, whereas tax incentives benefited a few, their impact on increasing housing prices made housing less affordable for all others.

### 3.5    HOUSING PROGRAMS FOR THE POOR

A number of specific programs for the poor have included: slum upgradation and redevelopment, land reservation for poor in new projects; sites and services; night shelters; Environmental Improvement of Urban Slums, EWS-LIG housing program, VAMBAY, Million Housing Program etc.  Various states have their own housing-specific programs targeted towards the poor.  To facilitate operationalisation of these programs, institutional mechanisms were set up including Housing Boards and Development Authorities at state/city level.  Housing and Urban Development

Corporation (HUDCO) was setup in 1970 to make finance available at subsidised rates for housing programs targeted towards the poor.

### 3.5.1  Subsidised Housing Program for the poor

In the initial years of independence, ambitious housing programs for the poor were launched.  Under the Rental Housing Scheme, it was proposed to provide two room houses to the poor on subsidised rent.  Huge difference between the market price and rent payable by the allotted acted as an inducement to `sell' the occupancy rights.  Most such housing changed hands in the first few years itself.  The program was not successful due to the high quantum of subsidy involved.  Maintenance cost, which were to be borne by the Government were much higher than the rent.  Many allottees defaulted even on the low rent payments.  Unable to bear the heavy subsidy burden, the program was shelved and existing units were `sold' to the occupants.  Same was the fate of housing provided on ownership basis.

It was realized that given the magnitude of housing problem, it will not be possible for the government is to provide subsidised housing to all the poor.  The next set of programs hit upon Cross-subsidisation as the solution wherein the burden of subsidised housing for the poorer sections was to be borne by the middle and high income groups.  The state governments initiated composite housing programs including housing for all income groups.  Housing provided for different income groups varied in size and specifications with lower size/specifications for EWS-LIG as compared to those for the MIG and HIGs.  The success of such a program would depend upon the number of dwelling units built for different income groups, the quantum of subsidy required for EWS-LIG housing and the viable price for MIG-HIG housing units.  Given the fact that the requirement for EWS-LIG units was much higher, and subsidy needed per unit quite-high, the MIG-HIG housing would have to be `priced very high.  High price however discourage demand for such housing.  The public agencies responsible for implementing the program decided to build more MIG-HIG units to cross-subsidise the EWS-LIG units.  The needs of the poor were not met.  Nor of the MIG-HIG since the demand for these too was much higher.  A significant number of subsidised housing for the EWS-LIG too filtered up to accommodate unsatiated demand for housing of the MIG-HIGs.

It was also discovered that the amount of subsidy per unit (calculated as the difference between the market price and price paid by the allottees) was much higher in case of MIG-HIGs than that of EWS-LIGs. In some cases the subsidy to EWS-LIG turned out to be much higher due to low cost recovery. Cost recovery in some cases was as low as 8 per cent. Many Housing Boards and Development Authorities gave up building for the EWS-LIG. This was more the case in the post-liberalisation era when the state governments started insisting on public agencies to be self-sufficient and stopped subsidizing these agencies.

Attempts to provide housing to the poor within their affordability limits took the form of provision of serviced sites (Sites and Services) with nil or skelton structures. The poor had to pay for the sites and build or complete structure on their own. Since what was provided under these schemes already stretched the budget of the poor to the limit, they did not have financial capacity to build/complete the shelter. Further, in most cases the sites were in far-off peripheral areas suffering from locational disadvantage for the target group. The housing package provided under these schemes was inferior to the existing habitats and was unacceptable. These locations were good investment options for the moneyed class.

Most of the public housing projects were conceived on a large scale. Given the financial constraint, these had to be located on cheaper lands which would be in peripheral areas. Due to this factor, housing provided by these agencies have not been successful in the short run. In the long run however these have emerged as viable units for the LIGs especially in cases where initial support in terms of cheaper transport to workplaces has been provided or other earning opportunities created for the target group.

The Government is thus confronted with the dilemma. Low amount of subsidy fails in providing even minimal amount of housing. On the other hand, high amount of subsidy leaks out to higher income groups. Higher amount of subsidy per unit would also mean that the `benefit' will accrue only to limited number of the poor – given the financial constraint. If the limited amounts of funds have to be spread over a large

segment of the poor, the design of the program should envisage low subsidy per unit.  Two such programs are Night shelter and Slum Improvement and Upgradation programs.  The scheme of Night Shelter was targeted towards new migrants and homeless.  The cost of Night Shelters was put at Rs.5000 per beneficiary with a grant of Rs.1000 from the Central Government and a loan component ( to public agency) of Rs.4000.  The beneficiaries were charged nominal amount of money per night stay.  Problem areas included:

 i.    discontinuous flow of subsidy from the Central government
 ii.   inadequate allocation of Rs.5000 per beneficiary
 iii.  reluctance of the city governments to provide land at appropriate locations (near commercial areas) due to high land values.

Despite good design the scheme did not take off and very few Night Shelters were built all over the country.


The scheme of Slum Improvement and Upgradation has had better record of success.  The development under this scheme is done in-situ and the likelihood of beneficiaries selling of the improved units is much lower.  Due to fund constraints the scheme could not be taken on a large scale and only a small percentage of slums could be covered.  The problem of keeping up the `improvements' after the initial upgradation by the public agency has been acute. At times, improved slums have become preferred habitats for LIGs or lower MIGs.  In other cases, the rents payable by the tenants in improved slums have increased.


In addition to the few schemes described above, state governments have had their own schemes with mixed results.  The Government of India has launched a variety of schemes like Million Housing Program, programs linking poverty eradication with provision of housing (see Annexure 2 for details )  It can be surmised that the housing situations would have been much worse in the absence of all these schemes.  The situation however, is far from satisfactory as can be seen from the report of Housing Conditions in various government reports.  The policy makers are still in search of a viable solution to provide Affordable Housing for all.

## 4. India's Urban Housing Problem, Policies and Programs

In the past 60 years (1950 onwards) Government of India has adopted a plethora of policies and programs to solve burgeoning housing problem of the country. The cumulative impact of these policies has been quite limited as is evident from the continuing worsening of housing situation especially for the poor. Percentage of urban population living in slums had increased from 17 per cent in 1981 to 27.8 per cent in 2001. As per 2001 Census, population living in slums was as high as 61 million. Percentage of households having no exclusive room increased from 0.04 in 1991 to 2.3 per cent in 2001. The Technical Group constituted for assessment of housing shortage at the end of 10th Five Year Plan (2007) estimated the total (urban) housing shortage in the country to be 24.7 million dwelling units. Approximately 98 to 99 per cent of this shortage pertains to EWS-LIG.

In terms of `quality' of structure (defined as permanent) housing 79 per cent of housing stock was permanent (in 2001). A mere 5.3 per cent was temporary and within that even a smaller portion (2 per cent) was unserviceable temporary. The situation was more critical in terms of large sized families living in small house. Only 12 per cent of households were 1-2 members but 37 per cent lived in one or less room. 48 per cent of married couples did not have independent room. 68 per cent lived in 2 or less rooms including a significant percentage of large sized families. Comparing the number of households living in permanent/semi-permanent/temporary housing with the number of housing units in each category, the excess of number of households over number of housing units in three categories is 3 million, 1 million and 0.8 million respectively. Thus, a larger proportion of households living in permanent housing share accommodation with other households. Congestion factor was higher in permanent housing than in non permanent. This is understandable since a large number of non-pucca houses would be too small in size to accommodate more than one household.

The problem however is not only of number of livable housing units equaling or exceeding number of household. Unless the supply responds to requirement in different segments, we might have surpluses in some segments and shortage in others. This is evidenced by high vacancy rate (at 9 per cent) in urban housing.

A clear understanding of the nature of housing problem is an essential pre-requisite for formulating appropriate policies. Even though the `need' for housing is the highest at the lower end, it is not to say that need for housing for MIGs/HIGs has been exhausted. The housing policies thus have to be directed towards meeting requirements of all sections of population.

The Government of India has adopted a dual policy for providing Affordable Housing for all. The fiscal incentives and housing sector reforms mainly target the middle and upper income groups who will be provided housing through the market processes. Special housing programs had been devised for the poor both at the centre and state level. In fact there has been a succession of such programs. In the beginning of the planning period, social housing schemes were devised for EWS-LIG-MIGs. Later programs however have been directed towards the poor only. These included Integrated Subsidised Housing Scheme for Industrial workers and economically weaker sections (1952); Low Income Group Housing Scheme (1956); Slum improvement/Clearance Scheme (initiated in 1956 and discontinued in 1972 at national level). Environmental Improvement of Urban Slums (1972); National slum development Program (1996), Scheme for Housing and Shelter Upgradation (SHASHU as part of Nehru Rozgar Yojna, introduced in 1989 and discontinued in 1997); the Shelter Upgradation Scheme under PMIUPEP (Prime Minister's Urban Poverty and Employment Program had even a shorter life span 1996-97); Night shelter (1988-89). Two Million Housing Programs, VAMBAY (Valmiki Ambedkar Awas Yojna (launched in 2001-02) and the latest JNNURM (Jawaharlal Nehru National Urban Renewal Mission). In addition various ministries have had their own programs targeted towards their constituencies. Ministry of Textile launched workshed-cum-housing scheme for artisans and handloom weavers. Ministry of Labor launched housing scheme for workers engaged in 'beedi' industry, for HAMALS (persons engaged in carrying head load at public places such as railway stations, bus terminals, market places etc.) and for Mathadi workers. The fisherman housing scheme was promoted by Ministry of Agriculture.

Apart from the above centrally sponsored programs, state governments had their own state-level programs.

Many of the above programs have been launched with much fanfare as the final answer to the housing problems of the poor and replaced by other programs at times coinciding with the installing of different political set up. The low success rate could be also another reason. The reasons for the low success rate have seldom been critically and rigorously explored. Many of the subsequent programs would thus suffer from the same shortcomings and will have to be jettisoned. Offhand one could surmise two major reasons for their limited success; One, the programs were generally fully funded by Government of India initially and later on shifted to state government and local bodies. Lack of funding constrained the states to discontinue these programs. Inefficient implementation due to absence of requisite skills/capacities at the local level could be another reason.

The short life span of most of these programmes has acted as a serious constraint to exploitation of full potential of these. Their substitution by subsequent programs would also be quite costly. The institutional setup to operationalise the programs will have to be substituted by a different mechanism devised for the new program. Further, hardly would have the administrators acquired the requisite skills for operationalising the program that they have to unlearn these and learn new skills. It is therefore very important that any new policy/program is well thought of and carefully designed. The experience from the old programs should be a definite input while designing any new program. Same holds for housing policies.

In the following paragraphs we take a look at India's National Urban Housing and Habitat Policy 2007, housing policies of selected states; a few state housing programs and the latest ambitious programs launched by the Government of India namely the JNNURM, BUSP and IHSDP.

## 4.1    National Urban Housing and Habitat Policy 2007

Housing being a state subject the NUHHP plays only an advisory role.  Concrete steps to operationalise the policy are to be taken by the state governments.  For the same reason the NUHHP does not put a time-frame to achieve the aims of Housing Policy.  Setting the goal of Affordable Housing for All, the NUHHP, as noted above adopts dual policy.  For the MIG-HIGs the suggestions include, among others, fiscal incentives (even though these fall in the domain of Central Government, no concrete suggestions have been made);  development of innovative financial instruments like Mortgage based securities to increase flow of finance to the housing market; reform of rent control act, rationalization of stamp duties and promotion of rental housing. The section on Legal and Regulatory reforms lists sixteen reform areas to be taken up by the state governments.  Important among these are reform of rent control acts, repeal of ULCRA, single window approach for approval of building plans.  For the poor, the policy seeks to assist poorest of the poor who cannot afford to pay the entire price of a house by providing them access to reasonably good housing on rental and ownership basis with suitable subsidization (GOI: 2007 p.11).  At another place,  the policy stance is different. It emphasises shifting to a demand driven approach and from subsidy based housing schemes to cost recovery-cum-subsidy schemes for housing through a proactive financial policy including micro-finance and self help groups (GOI: 2007 p.14).  The two statements taken together point towards a limited subsidy approach towards housing the urban poor.  Other recommended policy instruments include land reservation for the poor and higher FAR in lieu of that, capital and interest subsidies; setting up of a National Shelter Fund for providing subsidy support to EWS-LIG; spatial and financial incentives for slum redevelopment schemes and in-situ slum upgradation. It is also suggested that the states/UTs prepare 10 year Perspective Housing Plans with emphasis on EWS-LIG sectors'.

Most of the suggestions are worded in general terms—specifies being left for the states to work out.  In two cases however specific suggestions are given.  (i) reservation of 20-25 per cent of the FAR to be reserved for EWS-LIG (relaxation of FAR to facilitate the same) and (ii) proposed outline of reform in the Model Rent Act.

## 5. State Housing Policies and Programs

### 5.1 State Housing Policies

The various State Housing Policies have taken their cue from the NHHP and formulated their policies accordingly. Major policy initiatives towards the goal of Affordable Housing include reform of rent control act, increased supply of land, reservation of land for the poor, in-situ slum upgradation, reduction in stamp duty especially for the poor, creation of State Shelter Funds for increased flow for EWS-LIG housing, interest subsidy, increased FAR, simplification of procedures for getting various permissions for building housing. The above mentioned features are common to all state housing policies being analysed. Madhya Pradesh and Maharashtra housing policies also propose to provide transit shelters for new migrants. Madhya Pradesh plans to levy shelter fee on projects in lieu of land reservation for the EWS-LIG. The revenue from this shelter fee will be used for providing dwelling units for the EWS. In case the private sector allocates higher than prescribed (15 per cent) proportion of land for EWS-LIG, the permissible FAR will be increased further as financial incentive. The Madhya Pradesh Government also proposes complete exemption from stamp duty to the poor. In order to overcome the constraint of land for housing projects, Madhya Pradesh government also would provide government land (wherever available) for such projects – especially to public housing agencies. It is stated that the aim of housing policy is to have slumless cities and programs for relocation, rehabilitation, slum upgradation and mandatory provision of staff housing by employers is provided for. Even though, the government has prepared a comprehensive housing policy responding to major housing issues in the state, no time frame is set for achieving the objectives of Housing Policy.

The focus of Maharashtra Housing Policy, as per its statement, is providing affordable housing for EWS-LIG and MIGs. In that, the state has taken an integrated view of the housing problem. The mechanism to achieve would be mainly through simplification of rules/regulations, incentives and cross subsidization. It is clearly stated that the government will act as an enabler and facilitator (and not provider).

Incentives are to be provided through increased FAR for LIG housing and TDRs. The policy `promises' to provide adequate land for EWS-LIG housing near cities. In order to promote optimal use of land, disincentive to hold vacant land will be operationalised by introducing capital-value based property taxation.

Kerala Government's housing policy puts forth the idea of promoting EWS-LIG housing as part of corporate social responsibility. The private sector would be given incentives to invest part of the profits for housing needs of the poor. It is also stated in the Policy that the government will initiate the setting up of a `Bhavan Nidhi' from NRIs and corporates of Kerala for investment in EWS-LIG housing projects. A very important component of Kerala's state Housing Policy is setting up of a Housing Risk Fund to cover repayment risk on loans upto Rs.1 lakh provided by HFIs to EWS-LIG. This would encourage HFIs to lend to the EWS-LIGs.

Almost all state housing policies make a pitch for providing for EWS-LIG. It is a moot point as to how far would these succeed in making available Affordable Housing. Of foremost importance is the question whether these policies will get implemented. Thus e.g. the earlier housing policies had also recommended simplification of procedures etc. On ground the impact has been negligible, if any. Promises to make land available do not necessarily mean that the land will be made available at affordable prices. Similarly, reserving land for EWS-LIG in new housing projects neither means that the price fixed for such lands is affordable nor that this land will be taken up by the EWS-LIG. Increased FAR and TDR also may not translate into lower housing prices. Nor will reduction in stamp duty. The ambitious plans for slumless cities may hit the roadblock of funds availability.

Reform of rent control act will have a beneficial impact on investment in housing. However since most of the proposed reforms leave out the existing tenancies which are in prime areas of the city untouched, the total impact on affordability will be marginal. The impact however will be significant in the long run. Since as is the case in many `reformed' rent acts, the low-rent properties continue to be protected, it is unlikely that there would be any significant investment in low-rent housing. The major constraint to investment in rental housing was not only the rent control act but

the low returns on investment due to high capital values of residential properties. The rate of return ranges between 2-4 per cent for new housing. In order to provide affordable (rental) housing, cost of housing will have to come down in the first place.

Another important legislative reform namely repeal of ULCRA is also unlikely to have any impact on land prices. The recent decline in land prices is due to recession in the economy rather than repeal of ULCRA.

Apart from the housing policy – which is more of a statement of intent, the state governments have various housing programs specifically for the weaker sections. As in the case of Central Government, the State Governments also have had a succession of programs targeted towards the poor. Kerala had Rajiv One Million Housing Scheme and Mathri Housing Scheme (mainly cash loan schemes), Karnataka Ashraya and Ambedkar Housing Scheme.

Uttar Pradesh initiated a housing programme for the poor wherein the beneficiaries would be provided built housing. The beneficiary had to repay the loan at the rate of Rs.5, Rs.10 or Rs.15 per day over a repayment period of 20 years. The Rs.5 per day plan will fetch him one room-kitchen and open space for future expansion on a 25 sq.m. plot of land. Rs.10-15 plan will provide for toilet also. Eligible population was to be BPL households with an income of less than or equal to Rs.11850 p.a. It is clear that this would have required heavy amount of subsidization since even the highest income group among the BPL would not be (or barely) able to afford to pay the installment even in a Rs.5 plan. As per the program, some amount of subsidy had to be borne by the development authorities from their internal resources. It is unlikely that the development authorities will have the requisite amount to subsidise this program. This program has been substituted by a new program after the BSP came to power.

The Uttar Pradesh Government initiated two schemes for the poorer sections of population. The first one was initiated in June 2008 named Manyavar Shri Kashiramji Shahri garib Awas Yojna with the objective of building 1,01,000 dwelling units in the first phase (2008-2009) for the poor. Land was to be made available at appropriate

locations within a specified period and free of cost. The land supply would be drawn from Nazul, surplus lands (acquired) under the Urban Land Ceiling and regulation Act; land owned by urban local bodies, nagar panchayats and other government departments. In case sufficient land was not available from these sources, required land would be purchased. Responsibilities for acquiring the land within a specified period were fixed. The land for the scheme need not be in one layout but could be spread; The total quantum required for each development was fixed. The size of each DU was fixed at 35 sq.m. (with 2 rooms, kitchen, latrine, bathroom and a balcony) with a maximum price of Rs. 1.75 lakh. The target groups were to be shelterless widows/handicapped and poor below the poverty line. The dwelling units(DU) were to be made available free of cost to the beneficiaries. Maintenance of the DUs would be the responsibility of the local body and the beneficiaries will be exempt from payment of house tax and water tax. The scheme was to be operationalised by the development authorities or UP Awas Vikas Parishad. The DUs were to be built on no profit-no loss basis and the agency would not be given any money for overhead or other expenses. The dwelling units would be allotted on lease. The beneficiary would not be permitted to transfer occupation of the premises to any other person for next ten years.

The scheme was ambitious. The cost to the exchequer @ 1.75 lakh per dwelling unit for 1, 01,000 would be 17,67,50,00,000 (Rs.176.8 crores approx) and even at this cost would be able to cover only a small segment of the needy.

As noted in section I of this paper, such a scheme was initiated by the Central Government with subsidised rentals. The scheme was an abysmal failure. The poor sold off their occupancy rights; the local bodies could not bear the expense of maintenance and ultimately the government was constrained to sell of the property. The UP government's scheme does not seem to have incorporated any element to ward of such a probability. The condition that the beneficiary cannot transfer the occupancy right or lease to any other person for next ten years is not a sufficient disincentive for transfer. What happens if the beneficiary sells of the occupancy right which under the current market conditions will fetch a lucrative price? There is no penalty prescribed in the scheme for such an action. Even the penalty of depriving

the beneficiary from allotment under any other government scheme if he transfers, will not be a deterrent against such lucrative option. The scheme could have incorporated some element of community involvement and community pressure against transfer.

The high amount of subsidy per unit would be unsustainable given the magnitude of the problem. The problem of targeting would remain. With the huge housing deficit for EWS, LIG and MIGs a 2 room dwelling unit will have high demand and market value. The government seems to have no adequate policy for the other income group. While the scheme was still being implemented, the government came up with another scheme. The target group was again BPL individuals or households living in unplanned, informal and unauthorized settlements.The objective were to give these people secure tenure by giving ownership rights on their dwelling units. The scheme was named `Sarvjan Hitay Garib Awas (Slum Area) Malikana Haq Yojna. The scheme is a slum redevelopment scheme. Under the scheme the beneficiaries will be allotted plots ranging from 15-30 sq.m and charged a price for the same. The price would be Rs.20 per sq.m in municipal corporation area, Rs.15 in nagarpalika and Rs.10 in Nagar Panchayat. The beneficiaries would not have to pay any conversion fee, development fee or shaman fee.

The reach of this scheme is even more limited than the earlier scheme. All slum/unauthorized colonies are not eligible under this scheme. Within these eligibility is limited to BPL families. The ineligible slums etc. include (all slums on lands of central government or of their enterprises, industrial, forest areas. Etc.) eight categories. Further, even though the layout plan will be prepared and plots allotted at a subsidised price, there is no assurance of provision for basic infrastructure like drainage, roads etc. This would be conditional upon availability of budget. Security of tenure, however, might induce the slum dwellers to improve their shelter structure. Considering the fact that eligible individuals are below poverty line, it is a moot point whether they would have the financial wherewithal to do that. The possibility of infrastructure improvement on their own is even less. For one, it is inconceivable that all the slum dwellers in a particular slum will belong to BPL category. Thus not all will get Patta. Improvement on a slum-scale can happen only if all are involved.

Discrimination will also hamper community participation. Secondly, both willingness and ability to pay of the slum dwellers for infrastructure improvement would be quite low. The risk of eligible slum dwellers selling of the `Patta' can be there unless a foolproof mechanism involving the whole community is set up. The very design of the scheme which would exclude a segment (non-BPL) of slum dwellers will act against the spirit of community participation. Exclusion will also mean that the layout cannot be properly designed.

## 5.2 Housing for Poor; A Saturation Approach - Andhra Pradesh Experience

Named INDIRAMMA (Integrated Novel Development in rural Areas and Model Municipal Areas), the scheme, initiated by the Andhra Pradesh Government aimed at achieving a slum free and hutfree state in 3 years. The scheme was started in 2006-07. The scheme had a package of 9 services – housing, pensions, drinking water, roads, elementary education, electricity, ICDS, health and sanitation for the rural and urban poor. As per government estimate in 2006 there were 13 lakh urban households (47 lakh rural households) without a permanent house. The government aim was to ensure that all these households be given a permanent house within 3 years. House site, if required was to be given by government free of cost. The financial requirement for such a program would be huge. Financial institutions were roped in to supplement the budget provision made by the government. Under the scheme the proposed dwelling unit in urban areas would be 25 sq.mt and cost Rs.73000. The subsidy amount is Rs.6,000 per unit. By January 2009, 20.47 lakh houses (13.50 lakh in phase I, 6.97 lakh in phase II) had been completed in rural and urban areas against a target of covering 60 lakh households in 3 years. The scheme is still operational but dependent upon accessing finance from financial institutions. Since the plots on which dwelling units were to be built were spread over a large area, it would be difficult for financial institutions to monitor repayment of loan. The FIs are therefore wary of lending for this program.

Apart from the fact of financial constraint which such a program would face, the government seems to have taken a static view of the problem. The number of

households without a permanent house would not remain the same as was quantified in 2006. Even if the government succeeds in building permanent DUs for all these households, the objective of a hutless-slumless Andhra Pradesh could not be achieved. Over time, the number of households requiring assistance to have a permanent dwelling unit would continuously increase.

It is recognized that in order to improve housing condition of all the urban poor would require a massive dose of funds. It was estimated that to meet the housing requirement during the 11th Five Year Plan (2007-2012) would need an investment of about Rs.5,10,000 crores. Buoyed by the high rate of growth of the Indian economy and rising rate of growth of revenue, the Government of India launched JNNURM with the Sub -Missions of BSUP (Basic Services to the Urban Poor) and IHSDP (Integrated Housing and Slum Development Program. This major objective of the programs being provision of affordable housing to the poor. The JNNURM has a target of construction of 1.5 million units.

The BSUP is being implemented in 63 mission cities and IHSDP in all other towns. Both have a 7 point charter including security of tenure at affordable prices, improved housing, water supply and sanitation and integration of provision of other existing universal services of health, education and social security under various government programs. The existing centrally sponsored housing programs of VAMBAY and NSDP will become part of IHSDP.

Under BSUP the central government will give a grant of 50 to 90 per cent for various categories of cities. The rest of the finance will have to be through state government grant/loan and beneficiary contribution.

The JNNURM is a reform-linked (see Annexure 3 for suggested reforms in the urban sector).

Detailed (model) guidelines were brought out for preparation of DPRs. A prerequisite for considering any project was that the city should have formulated a CDP outlining the requirements (in detail) of the city. Proposed housing design

included 2 rooms, kitchen, bathroom, WC & individual water and sewer connections. The guidelines gave detailed finer elements (like provision of jali door, space for fixing exhaust fan etc.) which should form part of the house design. The project is to include layout for social cohesiveness, informal sector markets and livelihood centres, animal pen (if required) multifunctional community centres, recreational areas etc. Housing had to be at least 50 per cent of the project cost. Giving importance to locational preferences of the poor, it was suggested that the project need not be mass housing and clusters housing. A cluster of 15 units would also be considered. The ceiling cost was put at about Rs.2.50 lakh. The beneficiary contribution should be a minimum of 12 per cent (10 per cent for SC/ST/BC/OBC/PH). The cost of land is not included in the ceiling cost. The land will have to be owned by state or ULBs or the beneficiary. Land will be given to the beneficiary on 99 year lease.

More important than the coverage is the design of the program which could become a model for future (or be replaced by another program). The integrated approach of providing housing with infrastructure, involving communities in the process of project preparation and viewing the problem of slums in the context of development of city is an `ideal' concept. So is link with the urban sector reforms. Preparation of City Development Plan is a precondition for acceptance of projects. Signing of MOA with the Ministry of Urban Development, undertaking to carry out the agreed reforms is another precondition. As of January 2009 against the target of 1.5 million houses countrywide, projects for 1.2 million have already been sanctioned. The success or otherwise of the program will be known only after its implementation.

Even though the program is designed to include skill development of slum dwellers as its part, the danger of its sliding down to the level of mere slum upgradation in some areas cannot be ignored. Skill development, education and health is even more important because this component will help in achieving the goal of slumless cities in future.

The most important part is linkage with urban sector reforms. Enticed by the use of central government grants, many states have undertaken the required reforms.

These reforms will enhance the financial strength of the ULBs and help in capacity building of its personnel.  The preparation of CDPs will provide immense amount of data on the city economy and will be a definite aid in policy formulation.  Will the program help in providing Affordable Housing?  Yes, to a few at a huge cost.  Is the program replicable or sustainable?  Program will be able to provide affordable housing to a very small section of population.

It is understandable that given the magnitude of the problem, the program can cover only a small proportion (less than 6 per cent) of the target population.

From the above description of various government policies and programs one can draw some broad conclusions as to what kind of policies would have better chances of success.  `Success' of a Policy or Program is defined in terms of accessibility of a large section of population to adequate affordable housing   Given the magnitude of problem, it is quite clear that the government programs cannot provide for more than a small percentage of EWS-LIG, leave alone MIGs.  The dependence will have to be more on policies which reduce the cost of housing and make it possible for the market to provide housing within the affordability limits of different categories of population.  In the short term, it may be essential to redefine and prioritise the norms of adequate housing in Indian context.  Thus, it may be more important to provide basic sanitation facilities, water and roads than pucca housing.  The same amount of funds thus could cover a much larger segment of slum population than can be covered under programs which propose to provide 2 rooms plus to a small percentage of households.

1.      the first conclusion we can draw from earlier programs is that high amount of subsidy per unit is not a workable solution to achieve the goal of Affordable Housing for All.   As noted above, the benefit of such a program accrues to a few in the first stage (i.e. till allotment).  Post allotment the beneficiaries quite often are a different group altogether.  The problem of housing for the poor remains the same.   High level of subsidy (calculated as difference between the market price and cost to the beneficiary) also leads to speculative demand.

2.  In order for any policy or program to succeed it is important to take an integrated view of the housing problems of all sections of population. Confining the policy/program to one section, while the requirements of the other sections are still unmet can lead to hijacking of the program by the more powerful of the sections.

3.  Providing security of tenure either on ownership or rental basis is not necessarily an assurance against transfer of occupancy/ownership rights. Security of tenure is normally provided at much below market rate (in most cases it is provided free of charge). The secure tenure increases the market value of property and may work as an inducement to sell. The provision of security of tenure supplemented with active community participation has had better success rate.

4.  Community participation at all stages of planning for slum-redevelopment/relocation also is a crucial element in success of the program.

5.  The poor are not a homogeneous group. To define them only in terms of income level of the households and formulate a program based on affordability (calculated as percentage of income) alone can lead to wrong conclusion about their housing preferences. Other important elements which need to be taken into account are length of stay in the city, stability of job, type of job, composition of family, consumption/expenditure pattern etc.

6.  Location is an important component of housing for the poor. However, locational preferences of different categories of the poor would vary. The city center or location near to work places may be the first preference for most but a housing package superior in other components (better infrastructure, sized dwelling unit, ownership status) and/or availability of cheap and quick transport to workplaces can outweigh the attraction of locational advantage of nearness to workplace for some. The preference

pattern of different categories of the poor will differ. In-situ slum upgradation may not necessarily be the first option of all slum dwellers.

7. Provision of housing (even at highly subsidised rates) may not induce the target groups to opt for the house. Apart from the fact that the house may still (despite subsidies) be unaffordable (even in the narrow sense of the term), the willingness to pay for the house may be very low or nil. In order to create demand for housing of the target groups, one is to cater not only their ATP (affordability to pay) but also WTP (willingness to pay). Closer is house to their preference pattern, higher will be the WTP. A higher WTP even increases ATP by inducing the target group to cut down on other expenditure or increase their income by various means.

8. It is not necessary to plan for mass housing program for the poor. Such programs normally hit against the roadblock of non-availability of land in large chunks at cheap prices. The projects then per se.. have to be located in far off peripheral areas. Small chunks of land available within the city can be utilized. The ULCRA had provided for such an opportunity which was not exploited.

9. Now-availability of land has been a major obstruction to expansion of housing programs. In many programs (including JNNURM) a precondition for provision of a pucca house has been that the beneficiary should have a plot of land. Slum/house located on private lands and at times even government lands become ineligible for government assistance.

10. The exit or much reduced role of Housing Boards and Development Authorities from participation in the housing market has been a major setback for Affordable Housing agenda. These parastatal agencies performed two important functions: (i) provided housing for all sections of population at rates lower than that of the private sector; (ii) availability of `cheaper' housing of these agencies acted as a restraint on the profit margins of the private sector and lead to more competitive pricing. The

popularity (and demand) for housing provided by the public agencies can be gauged from the response to Delhi Development Authority's recent housing scheme while the private sector housing go abegging.

11.  An important/significant component of demand for land and housing in the Indian context is speculative or investment demand. This leads not only to failure of many programs but also is majorly responsible for continuous increase in prices of land and housing.

12.  Fiscal incentives in terms of tax breaks have not succeeded in making housing affordable for 2 reasons: (i) A significant part of these gets capitalized in the price and (ii) house prices despite subsidies are too high to be affordable. This is also the cause of high rentals.

13.  Despite subsidies many households (in all income categories) find housing unaffordable. The option of ownership is not viable for many. There are a few rental housing schemes for EWS but none for the LIGs and MIGs. There is no rental housing market in the organized sector which could be made to provide affordable housing to general public.

On the basis of above conclusions one can put forward a few workable suggestions for providing affordable housing to general public. It may be clarified that it is necessary to have a number of options to suit differing requirements and financial capacities of various groups. There can be no one solution or scheme which will meet the needs of ALL.

## 6.0     SUBSIDIES

1.  Since a very large section of population lives in abysmal housing conditions, the government effort must be directed towards making available minimal standard of housing for most of the population.  With limited resources, it is important to prioritise the elements in the housing package. There can be no two opinions that infrastructure will score over permanent housing.  If all the funds available could be utilized for providing better infrastructure in all habitats, housing conditions will improve on their own over time.  Whereas individuals are not averse to invest in improving their house, they are quite reluctant to spend any money for infrastructural improvement. Within infrastructure, highest importance needs to be given to provision of water and sanitation facilities. These have significant external economies attached to them. Provision of these will have multiple benefits in terms of better health, higher productivity and income. A graduated scale of subsidy may be applied with highest rate of subsidy being provided for water and sanitation and lowest for shelter structure.

2.  Subsidy should be need based. The needs of different habitats of the poor will be different. It is not possible for a generalized scheme to cater to the needs of all habitats. The need may be assessed in consultation with the community and a specific program of subsidization be formulated taking into account the paying capacity of the habitants and their priorities. Involvement of the habitants will lead to better success rate as also in minimal need for subsidization. The willingness to pay for any good or service is higher if the provision is in line with one's preference structure.

3.  The need for subsidizing shelter structure can be minimized by inducing financial institutions to lend to the poor for housing. At present, most financing institutions do not find the poor creditworthy. The poor are not a homogeneous group in terms of their repayment capacities. However since most of them are engaged in the unorganized sector they cannot fulfill the eligibility requirements of the financial institutions. This lacunae can be taken care of by creating saving histories of the poor. The poor may be motivated to save on a regular basis for 2-3 years, at the end of which they become

eligible for a loan from the financial institution. The loan could be at a subsidized rate. Insurance against default could be stronger if loan is made available to communities and on the security of the whole community.

4. Cross-subsidisation can be a success, at an area level in case the percentage of population to be subsidised is just 10-15 per cent. Thus, the land reservation for the poor (service population) would be a viable solution. The current practice of `selling' the EWS plots at subsidised rates is not successful because (i) the demand for such plots emerges only after the project is inhabitated and (ii) the service population can't afford even the subsidised price. The subsidy for this land could be financed by a service fee from occupants which could be loaded on to the property tax. The plots for service population could be linked (in some way) to other plots in the project.

5. Central and many state governments have been able to provide 2 room + kitchen + Bath + WC + balcony units within a cost of approximately Rs. 2 lakh. This excludes the land cost. Slightly bigger houses (3 or 4 room) could be provided for MIGs at the cost of Rs.3-4 lakh excluding land cost. Housing Boards, Development authorities could be involved in this program. There will be huge demand for such housing in the country. This would help in satiating the demand for housing of the MIGs (who will then not have the incentive to invade subsidised housing of the poor). This would also rein in speculative demand for housing. Housing Boards and Development authorities need to be revitalized to take up this task. State Housing Boards can compete for these contracts in all states. The cost of land can be recovered from the allottees over a long period. This is not suggesting a leasehold system (though that can be considered too). The ownership of land will accrue over a longer period while the shelter structure can be owned faster.

### 7.0        Tenure

1. Most government programs provide housing on ownership basis.  Rental housing is a more affordable option for many households.  Its other positive side effects include increased mobility leading to choice of optimal locations/type of house over one's lifecycle.  Higher turnover of occupants means vacation of space when not required and increased availability of such space in the market.  The earlier rental housing program initiated by the government failed.  The reasons for their failure need to be explored.  A major deficiency seemed to be procedural problems and lack of management capabilities.  With better management, it should be possible to have a viable rental housing option for all income groups.

2. The government should facilitate creation of many mid-way tenures to suit affordability levels of different categories of population.  One such option could be rental-cum-ownership.  Under this, an individual could part-rent-part own the house.  As his financial capacity improves, he can increase this equity in the house.  Another option could be joint-ownership (not necessarily of related people).  Hire-Purchase- the scheme earlier operated by Housing Boards could be revived.

3. In India, in most urban areas, there is no organized rental housing market. Supply of rental housing is a small-scale activity.  In early 19th century rental housing was provided on a mass scale (chawls) in Mumbai.  Rent Control act is normally cited as one of the reasons for killing this supply channel. Reform in rent control act may induce investment in building houses for renting on a large scale by the private sector.  However, even if RCA is abolished, investment in rental housing gives very low rate of return (3-4 per cent per annum) due to high capital value of the property.  In order to encourage investment in rental housing – especially at the lower end, the government will have to provide substantive support to the private sector.  This could take following forms;

(a) Land being the most expensive component in price of housing, it may be given on lease by the government to the private sector owner-manager of rental housing blocks;

(b) Fiscal incentives to owner/managers of low rent housing in the form of income tax/wealth tax exemption

(c) Under RCA the burden of subsidizing the tenant is on landlord, the government can create a class of social landlords who are agreeable to charge reasonable rents (rate of return of (say) 5 per cent or so); assure them this return (if due to some reason house is vacant). In case of poor tenants the differential between affordable rent and `reasonable' rent be paid by the government to the `social landlord'. This could be implemented through housing boards or urban local bodies.

(d) Encourage employers to provide staff housing for all categories of employees by providing fiscal incentives.

(e) Reform in the rent control act.


## 8.0   Fiscal Policy

1. Various tax concessions given by the government to investors in housing have not improved affordability much. With the objective of encouraging investment in lower cost housing, the regressivity of tax concessions needs to be reduced. This can be done in a variety of way namely: (a) by restricting tax concessions to a base rate of 10-12 per cent; (ii) by limiting concessions to incomes below a certain level; (iii) by capping the total amount of subsidy to an individual; (iv) by providing tax exemption at flat rate rather than at the marginal rate of tax payer.

2. Tax concessions can be limited to first time purchasers and for one house only.

3. Capital gains tax exemption given only after holding the property for three years encourages speculative investment. The exemption may

be provided only once in lifetime or/and for investment in new housing. Exemption may also be conditional upon investment of total resale amount rather than capital gains alone. Further, capital gains be indexed after the house has been held for more than ten years.

4. Wealth tax exemption to land held-as stock-in-trade (for a period of 7 years) has made holding cost of land very low for the developers and led to amassing huge chunks of land. Withdrawal of this land from the market would have negative impact on land prices. The exemption should be limited to 2-3 years.

5. Fiscal incentives may be made available to builders who accept low rate of return (4-5 per cent). Section 80 1B was not very successful in inducing builders to take up small sized housing. The government may develop organizations which take up housing as a Mission and provide housing on a no profit-no loss basis. Such housing societies/trusts could be given the status of charitable organizations with all the tax benefits.

## 9.0 Land Policy

The major cause of unaffordability of housing is the high cost of land. The government has to formulate a land policy which can make land available for different uses to all categories of population at reasonable prices. Prices are high due to artificial `scarcity' of land created by developers (amassing/hoarding huge chunks of land for long period of time), speculative investors (facilitated by existing fiscal policy) and by users (who prepone their demand for land in order to beat anticipated inflation land prices in future). In order to bring down land prices to affordable levels, The land policy will have to operate both on supply and demand side – tools to increase supply and curb excess demand for land. These could include:

(a) increasing the holding cost of vacant land by imposing vacant land tax after a holding period of maximum of 1-2 years.

(b) The developers may be given exemption from such tax for a period of 3 years. Government may formulate such policies that the lag between acquisition of land (by the builder) and initiation of project is not delayed due to various regulations and procedures of the government.

(c) Discourage excessive or wasteful use of land under existing or future uses by public or private sectors. Wasteful use results when land is made available at below market price as is the case in many public sector projects. Similarly, low and frozen rents under rent control act lead to excess demand

(d) Rationalization of land uses in inner city areas by conversion to more productive uses and through densification

(e) Reduction in minimum plot size (< 50 sq.m) and prescribe maximum plot size. The minimum and maximum can be different for different locations.

(f) Land planning for future should reserve central (or more productive) areas for uses which result in turnover of population. One such use is rental housing which is transient housing.

(g) Flexibility in Land Policy so that this irreproducible natural resource is used optimally in a dynamic and changing urban world. Rules for conversion of land from one use to another should be well defined to avoid delays in conversion

(h) Increase (flow of) supply of land from existing stock of developed land. Thus , for instance, a reasonable increase in property taxes of houses which at present are paying very low tax (thus with minimum holding cost) may induce the occupants to release some stock in the market.

(i) Inrease FAR wherever such is possible by infrastructure availability

(j) Work on price expectation by continuously making developed land available in line with city's requirements.

**Concluding Remarks**

Unaffordability of desired housing is a problem faced by a large section of population. Unaffordability of housing of minimal acceptable norms is a problem faced by the poor. However, a housing policy which addresses the housing problem of the poor in isolation has much less chances of success than a policy which takes an integrated view of the housing problem of all sections of population. Subsidy policy for housing needs to be viewed in this context.

Land has become the most expensive component of housing cost in urban India. An appropriate land policy will have to be an essential component of the housing policy. Second important component could be Tenure. Focus of discussion on housing policies must shift from preoccupation with ownership housing to other forms of tenure suitable for different income, professional and age groups.

The role of non- housing policies and strategies also cannot be overlooked. These could include transport policy, regional planning etc. In this context it is important to take a re-look at Government's existing fiscal and monetary policies, especially those directed towards housing.

Various programs to make affordable housing available to the poor, adopted by the Central and State governments are good indicators of relative success and failures in achieving desired objectives. Incorporation of lessons learnt from these programs in the new programs would enhance the chances of success of the new programs.

A key component to provision of Affordable Housing would be a more efficient functioning housing market which can respond to changes in demand as quickly as possible and with the least cost. Easing of government regulation has to be a first step in this direction. Improved mobility of households by reducing transaction cost of moving house (sale/purchase/renting) will be another. It is important that there are a multiple of options available to match the distinct requirements of different categories of population and there is mobility between different types and sizes of housing. It is not necessary to think of individuals/households only in terms of

income categories and then plan to provide (say) larger sized houses for MIGs as compared to those for EWS-LIG. Non availability of preferred housing leads to sub-optimal (read wasteful) choices. Thus single males/females or newly married couples (belonging to MIGs) may be satisfied with studio apartments or one- and-half room apartments but be forced to `opt' for 2 bedroom houses. Similarly, old retired people may prefer to live in congenial environment of `retirement' or old-age homes rather than be constrained to continue to live in congested cities. This artificial increase in demand (in the first case) and freeze on supply (in the second case) results in artificial increase in prices. There is need to think of creating housing for special groups. This will be a more cost effective housing solution not only for these groups but also for the society as a whole.

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**Footnotes:-**

1. This is not correction in prices (which would be thee case when the prices of existing high-valued properties decline. Prices of these have fallen by small percentages. The builder lobby is busy proclaiming that prices are unlikely to fall any further thus trying to boost demand by working on expectations of individuals

2. Components of adequate Housing as defined by the UN Committee on Economic Social and Cultural Rights include (apart from affordability) secure tenure; availability of infrastructure; Habitability location (access to employment options, healthcare, schools and other social services. There must not be excessive financial demands on the household with respect to transportation and cultural adequacy….